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RED CROSS — GENEVA CROSS (pr. name)

Kinder Garten: Children father

TELE = GREEK WORD = FAR OFF.

ADA : ASIAN DEVELOPMENT ACT

O PEC: oil producing European countries

# WHERE THE MONEY IS IN INDIA AND HOW TO GET IT

# WHERE THE MONEY IS IN INDIA AND HOW TO GET IT

*by*

G. Vee, Ph.D.

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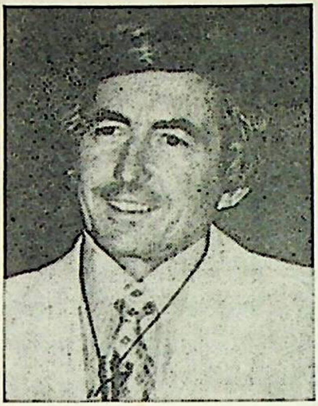
# MESSAGES FROM INTERNATIONAL MASTERS OF SUCCESS



## *Commitment to Success*

Among the characteristics most frequently observed in successful people are creativity and initiative. I know of no one who exhibits these characteristics more clearly than my friend G. Vee.

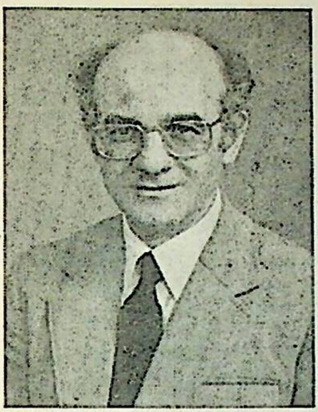
Dr. G. Vee regards an obstacle as a challenge and a problem as an opportunity. He assumes personal responsibility for achievement of the personal and business goals that are important to him. When he needs additional information, he seeks it out and then applies it to his situation. He recognizes the possibility that many solutions are available for every problem and uses his creativity to find those best suited to his own needs.

This book is a demonstration of Dr. G. Vee's commitment to the belief that success is possible for anyone who is willing to exercise creativity and initiative to attain it.

Successfully and Positively,

Paul J. Meyer

PAUL J. MEYER
Founder President
Success Motivation Institute, U.S.A.



# MESSAGES FROM INTERNATIONAL MASTERS OF SUCCESS

## *Seeking New Worlds*

Dr. G. Vee is one of those men who grows with the years. In over the ten years since I have been associated with him, I have never seen his enthusiasm flag, his energy lessen, his desire to grasp and grapple with new challenges diminish. He is always seeking for new worlds to conquer, and when he gets into something new, he hugs it to him with hoops of steel, and will not let it go until he has found a way to fulfill it.

To the above abilities and characteristics, one other, of paramount importance, must be added: integrity. No amount of success in an association between people would be worth the feeling that can only come with trust. On this score of integrity and trust, I would rate Dr. G. Vee one hundred per cent.

It is with the utmost personal pleasure that I contribute to Dr. G. Vee's book this message, which is a reflection not so much of my words as of the true essence of what he is as a person and as a motivator.

Michael Lombardi
President
Success Motivation Institute of Japan and the Far East

*Foreword*

# A MATTER OF JOY...

IT IS a matter of profound pleasure for me to see that Dr. G. Vee, who is known to me as a man of calibre and integrity, has placed before the public in general and students of finance in particular, this extremely readable, informative and thoroughly practical book, *Where The Money Is In India And How To get It*. Many an enterprising young man often appears to pass anxious moments in his efforts to mobilise money for his venture; and even if it be granted that at the present juncture it is motivation more than finance that limits development in India, it cannot be denied that finance continues to be the major problem. Management institutes continue to place as much emphasis in their training programmes on problems of business finance as before.

From all these angles, the present book by Dr. G. Vee, written in a light literary style, should be considered not merely topical and relevant, but an asset as a source of valuable information to existing and potential entrepreneurs and young businessmen.

My hearty congratulations and best wishes to Dr. G. Vee for opening, to everyone who cares, his gold mine of experience in the world of finance.

G. L. ABHYANKAR
Principal
Sydenham College of Commerce
and Economics, Bombay

*Preface*

# HOW THIS BOOK WAS WRITTEN AND WHY

THROUGH AEONS of time the study of money—particularly various modes and methods of raising money—has intrigued and fascinated mankind. With the passing of each age, the mode has undergone a change. Along with it, the interest in money has increased. It was John Kenneth Galbraith who very pertinently observed: "There is nothing about money that cannot be understood by a person of reasonable curiosity, diligence and intelligence." No wonder there have been treatises on money, but very few studies on how to raise money. If this has resulted in gaps in knowledge about the art of raising money, it is understandable. The need for a comprehensive study on how to raise money has been felt acutely, not only by scholars but also by administrators, planners and financial experts at various levels. To meet this long-felt need, this book is presented.

Particularly in a developing country like India, raising money is not an easy task and that is why one should be discriminating in one's selection. Economic life is unthinkable without finance. Its terms and conditions of availability for specific activities determine the direction and nature of industrial growth and economic prosperity. Enabling the entrepreneur to get adequate finance is only a part of the whole problem. Once the necessary finance is made available, the real challenge lies in the efficient planning and management of finance and optimum use of whatever is available at the lowest possible cost. It is this missing element to which this book directs its focus.

Writing a book, like anything we perceive, is greatly aided by friends and colleagues in the profession who are willing to tell you what they believe, regardless of what you want to hear. Many friends and wellwishers—too numerous to mention here—read, criticized and even pushed me and my manuscript to keep me going. Here I must confess that the impetus to initiate this virgin venture has been provided by my three close friends—

Principal G. L. Abhyankar, Paul J. Meyer, Founder and President of the Success Motivation Institute, Waco, Texas, USA, and Michael Lombardi, President of the Success Motivation Institute of Japan and the Far East, Tokyo. Principal Abhyankar not only inspired me to put my thoughts in print, but even agreed to write the Foreword. My gratitude to him is beyond words.

I am again at a loss for words to express my gratefulness to Mr. Meyer, who provided me with the courage and determination to complete this book. I must say he added a new dimension to my life. He has been my master motivator, who believes that human potential is so unlimited that man's capacity is never used up. It would not be irrelevant if I touch upon Meyer's philosophy in short. According to him, opportunities never come to those who wait. They are captured by those who dare to attack. To complete the picture of Mr. Meyer's basic principles, he outlines what he calls "The Million Dollar Personal Success Plan" (see Appendix, page 216).

Mr. Lombardi is another friend to whom I owe much for my personal development ideas. He has amply proved by his friendship with me, lasting for over a decade, that he is much more than a friend. He is a guide. He has lived by the principle of the concept of success as it is so aptly defined at SMI. Here is the definition: "Success is the progressive realization of worthwhile predetermined personal goals." Success is therefore a journey—not a destination. I hope that this book proves a further step, however modest, in the efforts to promote the essential skill.

I have received considerable help in the collection and analysis of data from my friend Subash J. Rele, Editor of a prestigious fortnightly—the *Industrial Times*. He also provided valuable editorial assistance. I would like to place on record my appreciation to him.

I have been able to devote time to this book—thanks to my wife Indu, who has shown great patience and forbearance, as many a time, I was near her but not with her.

I wish to express my deep gratitude to all those persons and organizations, but for whose direct and indirect help the completion of this study would not have been possible.

1979 G. VEE

*TO INDU,*

*without whose cooperation and motivation*
*the book would not have seen*
*the light of day*

*Chapter 1*

# SUCCESS HAS MANY SPLENDOURS

SUCCESS has many colours and connotations, definitions and dimensions, though everybody spells it with a capital 'S'. My father, who influenced me considerably in my early life, spelt success with ACTION. He used to quote scriptures and affirmed clearly, "Action is thy care, not the fruits thereof." He always inspired me to action and often warned me against daydreaming. Success comes to those who do things. Nobody achieves success by a stroke of good luck. Any new idea, to become a reality, needs to be put into action. This action could be either in business, industry, service, or in any other human endeavour. There are examples in the lives of great people which should inspire men of all ages. It is a blend of action and idea that has brought them success. It is the philosophy of action which forms the mainspring of their life's course.

I am always reminded of a story of two brothers to illustrate this point. They were both brought up in Flint, Michigan. When they went to work they took jobs in the paint shop of the Fisher Body Division of General Motors in Flint. The years passed. When the older brother was ready to retire at the age of 65, he was asked by a reporter, "Why didn't you get any further in General Motors than the paint shop where you started?" He replied, "I didn't have time and money to do things essential to get any further." The reporter was slightly puzzled and asked: "Where did your brother Harlow Curtice get the time and money to become President of General Motors?" With a shrug of his shoulders he replied: "Oh, he was always ambitious." What really happened was this. When Harlow Curtice decided that he wanted to get more from life than he could find in a paint shop he took all the steps to learn. He went to local business schools and graduated. He looked for the classified advertisements and found that the Spark Plug Division of General Motors needed a book-keeper. He applied and got the job. Of course, this did not prevent him from going further. He raised his sights till

he was appointed General Manager of the Spark Plug Division. When later, the Buick Division was having trouble, he was made its General Manager. He put this division on a firm footing and from there he became the President of General Motors.[1] Here is a great example of a man of action. There is a saying, "An enterprise is built around a man." The growth and potential of an enterprise are both determined by the characteristics, outlook and action of men helping the organization.

### PAUL MEYER: A PERSON TO PERCEIVE

Another person who influenced my thinking and became my guide, friend and philosopher is Paul J. Meyer, the founder of the famous Success Motivation Institute. It is easy to fall under his spell. For myself, Paul J. Meyer has given a new dimension to my life. Whatever little I have achieved in my life can be attributed to my strict adherence to his five principles of Personal Success Plan (see Appendix). Here is a man whom you cannot resist and who impresses you at the first meeting, whatever may be your disposition. He possesses rare qualities of power of perception and has the courage of his convictions. According to him, "Success is a journey, not a destination." Its achievement is a result of attitudes and hopes. Success is not so much the product of unusual talents or abilities as it is the product of a greater utilization of average ability through personal motivation. In a TV interview Lord Thomson of Fleet Street said: "I am not an intellectual, I haven't any great brain. But I have a burning desire to succeed." The person who is motivated—who uses more of the abundant God-given potential—is the man who achieves goals because he develops an attitude for success. Men have a great deal more of potential than they ever use. Most of us scarcely scratch the surface of talent, abilities and power that lie within us. We seldom use more than 25 to 30 per cent of our potential. Paul J. Meyer found his answer not in the techniques but in attitude changes through goal-setting. He founded his personal motivation methods through studies, through trial and error and through experimental creations, not in the sterile laboratories of a clinic or a laboratory but in the demanding

[1]From *The Blueprint for Success*, © Success Motivation Institute, Inc., 1966.

world of practical experience. Any person who wants to achieve permanent, sustained success must acquire vast reserves of inner strength, determination and desire. The answer to the question of what makes a man successful is not found in his personality, nor in his formal education or IQ, not even in his family heritage. He must have the ability to motivate himself.[2]

The world's greatest thinkers, scientists, poets and leaders of business were not men of unusual abilities but they had the ability to motivate themselves to accomplishment. Gautama Buddha, Confucius, Karl Marx, Gandhi, Socrates were ordinary mortals—but great motivators. That quality in them brought them fame. Dating from the earliest recorded literature, there have been arguments, debates and dissertations on what constitutes the ingredients of success. The degree or measure of a man's success may bring him international acclaim; it may be limited to recognition by a small circle of friends who know him intimately, or it may be an introspective joy, contained almost entirely within the heart of the man himself as he lives in harmony with the world and with his fellowmen. But if he is successful with any degree of consistency, personal motivation has played a vital role. He is dominated by an inspirational unrest that urges him to rise above himself and his circumstances to reach for higher and more worthwhile things. He harbours a type of constructive discontent with things as they are and strives to make them better. He does not merely complain; he corrects. He does not deplore; he does. He does not lament; he leads. This is personal motivation![3]

## Yes, You Can!

The secret of success lies within you. You can if you think you can. Many of the greatest divines of the world were none-too-bright in school. Only, as they matured, they developed strength, determination and the desire to succeed. Thomas Edison, at the age of six was sent home with a note stating that the boy "was too slow in the head" and his teachers advised his mother to withdraw him from school. How many of you know that Edison attended school for only three months during his entire life? Albert Einstein is now regarded as the outstanding intellectual

[2] and [3]From *The Dynamics of Personal Motivation* by Paul J. Meyer. © Success Motivation Institute, Inc., 1968.

giant of his generation; yet at the age of seventeen, he was so dull that his own teacher called him a "bore". James Watt, the inventor of the steam engine, was so mediocre that his teachers pronounced judgement that he was past learning.

The world's distinguished warriors and generals have been slow to learn in youth. Wellington, the famous English commander and statesman who defeated Napoleon at Waterloo, was not distinguished at school. He had no talent or abilities, indeed the only talent he displayed was in playing the violin. Napoleon, who changed the fate of many empires, was a perfect dullard at examinations. In his final year there were 42 boys in his class. Napoleon stood last but one. You will be intrigued to learn that Sir Winston Churchill was also a mediocre boy at Harrow where, more often than not, he was near the bottom of his class. "They always asked me just the things I didn't know," he often complained. This proves that the people who later became famous acquired vast reserves of inner strength and determination. They were also the greatest motivators; they motivated themselves and others.

Personal motivation is no window-dressing. I consider the philosophy of Paul J. Meyer, a major landmark on the management scene. It begins with developing personal courage, enthusiasm, know-how, confidence and belief. George Gershwin, America's most distinguished composer of popular music, was asked the secret of his success. Nonchalantly he replied: "That is very simple. I knew what I wanted and went after it." Supported by positive attitudes, the individual is motivated to create, to produce and to achieve. The world's greatest thinkers, scientists and philosophers were achievers.

### FROM FAILURE TO ACCOMPLISHMENT

Personal motivation means development of inner strength, will-power, an overwhelming desire and the determination to reach any goal you personally want to achieve. No matter who you are or what your aims may be, if you want to achieve permanent, sustained success, the motivation that will drive you towards that goal must come from within. Failure and despair should not deter you. In fact, in many cases, failure in one field was the cause of success in another. When, for instance, the British politician Benjamin Disraeli got up to make a maiden speech

in the House of Commons, he was interrupted by derisive shouts and bursts of laughter. Amidst all the din he was heard to say, "I am not at all surprised at the reception which I have received. I have begun several times many things, and I have often succeeded at last. I will sit down now, but the time will come when you will hear me." Disraeli saw his life's dream fulfilled. He was a man of action. There are numerous examples of people who have failed and failed but ultimately succeeded in achieving their goals.

The world's debt of gratitude to Emile Zola is simply incalculable. His failures, however, would have killed anyone not possessing his iron will. Zola's father was an energetic visionary who, dying while his son was a little lad, left to his family no inheritance other than a lawsuit against the municipality of the town of Aix. As a young man Zola chose a science career. He assiduously put his shoulder to the wheel but at the examination he failed. Sorrowful as he was, he did not allow the failure to get the better of him. He started attempting many things but failed in all. Destiny was persistently unkind to him. For years life continued to be relentlessly hard. Somehow he obtained a clerkship at the Docks Napoleon. He failed here too. Had he succeeded in any one of the things he had ventured upon, the world would not have known him as the writer and the fighter that he was. He took to the pen and it was to his pen that he brought the accumulated wisdom of all his failures.

Lord Beaverbrook, the great newspaper magnate, to cite another example, had failed at school. Then he failed at everything he undertook—he failed at selling life insurance, failed at selling sewing machines. . . . Space does not allow a full catalogue of his failures. His contemporaries derided him for his innumerable failures. Success eluded him for years but he never retreated. Ultimately he got on the track that made him a phenomenon in the newspaper world.

Opportunities may be found at any time, in any place or in any form. Some men seem to have the knack of finding opportunities in disaster. Many men have found their biggest opportunities in their own mistakes. The stress somehow seems to stir them in a different direction; they succeed where others have failed. For a man to develop a healthy attitude towards mistakes and failures, he must see them as a part of life.

Regardless of your business or profession, there are unlimited opportunities. Every business is always open to new ideas that will create sales or improve products and services. It is more than a truism that life gives back to man whatever he gives to life.

### Progressive Realization

Paul J. Meyer has rightly pointed out that accomplishment comes only through overcoming the obstacles and road-blocks that stand in the way of man's progressive realization of whatever goals he considers to be worthy of his vast efforts. Success is not something that can be measured on a gradient scale. Progressive realization means that a man must continuously set goals. Success is related to his goals and also related to his own potential. Whatever man's approach to achieving success, it would seem to include coming to terms with himself and with life through what he is. In short, success is attained through, first, a belief in the wealth of human potential; second, a knowledge of the importance of man's self-image; and, third, an acceptance of his individual responsibility in self-motivation.

It is especially important to personal motivation that we form success attitudes. We must understand that such attributes as self-confidence, self-respect, enthusiasm and determination are merely special kinds of habits. We change attitudes and habits when they no longer serve us or give us satisfaction. A great factor in man's willingness to change is to be found in his own attitude towards change itself. Any person who knows where he stands and where he is going does not worry. He has confidence in his ability to cope with any eventuality. Motivation involves change. People do change; often dramatic and planned changes can be brought about by the person himself. Motivation is not a permanent quality. It responds quickly to cultivation, but it must be cultivated. Without stimulation to its growth, it will die. To me this seems to be the basic thought underlying Meyer's philosophy. A successful man appreciates the fact that failures are nothing more than a state of mind. Mistakes are guideposts and direction-finders in the endless search for the most elusive of all goals—perfection.[4]

[4]From *The Dynamics of Personal Motivation* by Paul J. Meyer. © Success Motivation Institute, Inc., 1968.

## Michael Lombardi Leads

Persuasive and articulate, Michael Lombardi, President, Success Motivation Institute of Japan and Far East, is another of my favourite persons. "Pride" is too inadequate a word to describe the feeling with which I regard and value his friendship and association. His guidance and teachings to me read like the analysis of a master behaviourist or a master psychologist probing the deep sources of success, achievement, fulfilment, and what all of these infer, "motivation".

Michael Lombardi is a man of genius who resolves the difficult and thorny premises in his own soul and in his own practice—through confrontation with experience. Some of the sweetest memories of my life are those spent in his company. He is doing the splendid work of spreading Paul Meyer's message in the Far East where it is needed the most. The SMI Japan and Far East have an atmosphere that grips you, that makes you feel happy and peaceful. Since its inception, the Institute has been engaged in the business of developing systems and techniques of communication, education and motivation, which are intended to increase the efficiency and effectiveness of individuals and organizations. Lombardi takes pride in the fact that SMI programmes are suited to almost every need. Every SMI programme is designed to give direction to your dreams! The demand for SMI programmes in Japan and the Far East is constantly increasing. While SMI has marketed over a hundred million dollars worth of programmes, SMI Japan has doubled its sales every year. SMI is today the world's largest institute and pioneer in the knowledge, education and communications industry.

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## Legs to Stand on

Progress begins with ideas. Where ideas keep moving ahead, they change the face of the earth. Ideas need legs to stand on. They need capital to materialise. It is no simplification to say that business is nothing but borrowing. Even an established business at some point of time has its requirements of capital. In this book, I have made a sincere attempt to find out methods of raising capital for a business venture that are not commonly known. The information is certainly useful for starting an enterprise which needs capital. You will agree with me that the same

principle applies here. Starting an enterprise is a very personal thing. Later it becomes less personal, but there is always the sense that it is an extension of yourself. To start a business without your money, you must make up for it by greater personal motivation. Hence this rather seemingly lengthy thesis on personal motivation. Like "Believe It Or Not" cartoons, this book is full of recondite bits of information. There are facts and figures which fill the gap and fascinate you. The romance of business and money-making—no less than the romance of money-raising—is as fascinating as any romance of human endeavour. How well a business can raise capital makes illuminating and rewarding reading. A story of any man or business for that matter is a saga of action and achievement, self-motivated first and last. Take the instance of the largest business house in India—the Tatas. The late Jamsetji Tata dreamed of an industrialized and prosperous India and ceaselessly worked under conditions which would have appalled and discouraged lesser men. He ranks amongst the greatest pioneers of industrial enterprise of all times. It was not an easy success. The business complex of Tatas was born as a small credit company in 1868.

J. R. D. Tata in a foreword to J. Frank Harris's biography of Jamsetji N. Tata writes, "He alone in his time understood the full significance of the industrial revolution in the West and of its potentialities for his own country. While others thought primarily or exclusively in terms of political action, he saw clearly that India's freedom could not be achieved or maintained by political means alone, that freedom without the strength to support, and if need be, defend, would be a cruel delusion and that the strength to defend freedom could itself only come from widespread industrialization and the infusion of modern science and technology into the country's economic life." Even in those days Jamsetji visualized the three basic ingredients of economic progress i.e. steel, electric power and technical education, combined with research.

Another name which must be mentioned is that of Walchand Hirachand who laid the foundations of strategic industries like shipping, ship-building, air services, aircraft, sugar and automobiles. He did the greatest service to Indian shipping in reviving its ancient glories and putting the Indian merchant navy on the maritime map of the world. Sardar Patel, while paying homage to

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him, said, "The triumph of Walchand's life lay in persistence over adversity, faith over scepticism, and hope over despair. He was a man of indomitable courage." Mrs. Annie Besant, the well-known theosophist, in a speech delivered in Bombay in 1902 observed: "Centuries of moral evolution lie between the sentiments of two classes of men—namely one who would say that 'somebody should do it—why should I?' And the other class would say: 'somebody should do it—why should then not I?'" I may say that Walchand belongs to the second category. About him it was said: "Never did he petition success; rather did success petition him, clasp him to her bosom."

To anyone interested in raising funds the name of Birlas has continued to fascinate, but not many know how the Birlas started. Way back in 1862, when a young lad of twenty-two, Shiv Narain Birla, set up a small trading house in an obscure Marwari bazaar, nobody could have foreseen the shape of things to come. At that time his name may not have been among the more sensational names in Indian business but he was a true pioneer, who worked in a tough climate in the early days when success in business was not easy to achieve. The firm "Shobharam Narayan" dealt mainly in commodities but Shiv Narain's enterprise and business acumen soon led to its expansion and earned it an honoured place among private establishments. The business continued to flourish uninterrupted and left old milestones behind to reach new ones with vigour and determination. The story of the metamorphosis of a tiny trading organization into a thriving industrial house is the most fascinating saga of success. Birla was the type whose mind was totally imbued with the philosophy of action. It was this philosophy which brought to his activities the rare qualities of power and swiftness of decision-making.

The success story of the Bajajs would make the same familiar reading, but with a difference. It had the same modest beginning, with trading activities, like most other industrial houses, and then followed the jump into the manufacturing lines, in keeping with modern times. In early years, young Jamnalal Bajaj came into association with Mahatma Gandhi, his spiritual mentor. As a result of this he acquired a totally different concept of business which was later on known as trusteeship. During pre-Independence days, motivated by a profound feeling of respect towards *swadeshi* goods, Bajaj decided that he would not start textile mills. The

significance of this decision can only be fully gleaned when we consider that most of our leading industrial houses started off as textile manufacturers. The Bajajs had also decided, again following the Mahatma, not to manufacture potable alcohols and spirits. Their first venture was Hindustan Sugar Mills, and then Mukand Iron and Steel Works Ltd., which Bajaj took over in collaboration with his friends and laid the foundations for its development. This is another example of planning and foresight.

Evidence collected by Prof. S. K. Roy of the Indian Institute of Management shows that Indian industrialists have responded to risk-taking. They have a particular value system which differs from person to person. Most of us have some sort of values related to politics, religion, morality and even attitudes. I firmly believe that your priorities should never be estimated to reflect what you think the world wants to see. They must be your values, otherwise they will not be values at all. Neither do they need to be proved by anyone except yourselves. Many people live highly successful and rewarding lives by doing the things they want to do regardless of whether or not the world considers those achievements to be outstanding.

Just after World War I, four young trainees were employed by the same newspaper publishing firm, the *Kansas City Star*. All four had different objectives; each one knowing what he wanted. None of them had identical objectives, but each had the courage of his convictions which enabled him to stick to his objectives and act according to his priorities and values. From that one small group of trainees emerged four successful men. One was a young artist but went on to become one of the best-known names in the movie industry—Walt Disney. The second became a very accomplished playwright, although his name never attracted the headlines and, chances are, you have never heard it. He was Russel Crouse who was co-author, along with Oscar Hammerstein, of the stage play for *The Sound Of Music*. The third young man, who had a far more diversified career, finally emerged as one of the foremost novelists of the United States. His name was Ernest Hemingway. The fourth young man stayed on for more than a quarter of a century with the *Kansas City Star*, was a leader in founding the fellowship of Christian Athletes and was one of the most loved and respected sports writers in America. His name was Ernie Mehl.[5]

[5]From *The Dynamics of Goal Setting* by Paul J. Meyer. © Success

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Some people might say that two of these men had a proper sense of values, the other two simply did not, because they became more famous, but that is not true. After all, it is not what others think about your accomplishment that counts. The real question is whether you have achieved what you wanted to achieve—whether you have used the untapped potential within you. Success is a matter of what you consider important to you. Each of the four men described was successful in quickly achieving his aims, goals and ambitions. And you can be sure that in order to do so their goals were based on a system of personal priorities and values. Upon your priorities depends your ability to produce a clearly defined idea of where you want to go.

Getting where you want to go also requires faith. It requires belief. It requires a great deal of appreciation for the dignity of man. It requires the ability to shake off self-imposed limitations. It demands developing attitudes and habits of progressive successes. I can think of no more challenging a statement than that made by the late Wernher von Braun, former head of the Space Exploration Programme of the United States. Von Braun, who pioneered space travel and the effort that put the first man on the moon, summed up his philosophy in these words: "Man belongs where he wants to go." Where do you want to go? Before you can begin your journey, you must know who you are now, what kind of person you are and what your standards and values are.

This one fact is now clear at the start. People, with rare exceptions, do not fail because they lack knowledge, education or talent. They fail chiefly because of what they do not do.

When a man stops seeking idle pleasures and begins seeking success and happiness, he has reached a turning-point in his life. And there is a turning-point in the life of every successful person. Therefore, the first step to your success is for you to cause this turning-point in your own life. You, and you alone, can do it.

If you have already reached this turning-point, and are moving towards greater success and happiness, this book will still be of help. It will strengthen your determination, help you to analyse your own strengths and weaknesses, and show you how to mobilize your ambitions and skills for a rich and happy life of accomplishment and fulfilment.

Motivation Institute, Inc., 1977.

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Chapter 2

# THE MIRACLE OF MONEY

ARE ENTREPRENEURS born? Can they be trained? Is entrepreneurship development a feasible concept? Industrial development in every country has taken place through the initiative and risk-taking efforts of entrepreneurs, yet entrepreneurship development has been consistently relegated to the background in most under-developed countries. It is the "in thing" in those countries in Asia which are serious about accelerating the rate of their advancement. Our country, with our vast human and material resources and practically unlimited market potential, presents a challenge which can only be met by a whole new generation of entrepreneurs who could exploit these opportunities to provide for a better life.

In the last chapter we talked about motivation, which is the key to success. Motivation also involves development of inner strength, with the power and the overwhelming desire and the determination to reach a particular goal. Since our country has achieved Independence we have applied ourselves at various levels and through various agencies, to charting programmes for industrial progress. We have now realized that unless we accelerate our rate of growth, all our plans for the upliftment of the masses will be so much empty talk. The entrepreneur is the crucial point in every blueprint of our economic progress. There is a tendency to connive at the basic fact that more than 80 per cent of 600 million people live in small towns and villages with a population of less than 5000. The spread of entrepreneurship development has to be as wide to cover as many people as possible. It is in this context that one emphasizes the role of a small entrepreneur and points out that he has a big role to play. Here, unless he is motivated he will not play the part. Self-motivation is highly significant. It is true that he needs all the understanding, encouragement and guidance which society and the Government can give him. He faces problems big and small, perhaps the main being the problem of raising funds. There are human problems

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too. The most crucial human problem is that he has to handle himself first so as to derive the best out of his ability as well as out of opportunities. It is in this context that an entrepreneur is defined as a "person who has deliberately chosen to leap in the dark." He is in quest of territories where angels fear to tread. Most of the time he has problems which are unstructured or unprogrammed. The situation demands fresh thinking and decision-making. Entrepreneurs need to understand the nature of problem-solving and creative thinking. There are various techniques to do this but these will be of no avail unless the entrepreneur sets a firm goal and incessantly works to achieve the goal. A true entrepreneur has no pleasure in easy success. An entrepreneur who fixes his goal casually, trusting his luck as a gambler would do, is not an entrepreneur worth the name. Creativity is the birthright of every normal human being, provided he is willing to take the challenge systematically. Primarily, this creative ability is found in varied intensities in different individuals, but it can be fostered or developed to full fruition with proper attention, care and training. In the last chapter, we have seen the examples of the world's successful creative thinkers and scientists who made the grade on their own steam. They were ordinary people by birth but their endeavours were crowned with success mainly due to motivation—self-administered through the persistent exercise of their faculties.

## Achievement Orientation

In 1969, McClelland and his team conducted a series of training programmes at the SITE Institute. These programmes were based on the philosophy that achievement motivation is necessary for the development of an entrepreneur and that it is possible to make entrepreneurs, through the development of personal resources needed for successful entrepreneurship. There were four sets of inputs built into the training programme : achievement syndrome, self-study, goal-setting and inter-personal support. The results of this training programme revealed that the development of achievement orientation in entrepreneurs did increase their productive economic activity. Such training was found to be more useful for those who were dissatisfied with themselves and those who would initiate action to solve specific problems.

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Another study by Handal of Ludhiana entrepreneurs shows that fast progressive entrepreneurs had a higher need for achievement than slow progressive entrepreneurs. It was also found that aspirations, achievement, motivation and inventive tendency were associated with the fast rate of industrial growth, whereas the hoarding tendency tends to be related to the slow rate of industrial growth. Another study of entrepreneurship development is more revealing. It concludes that Indians do not readily undertake entrepreneurial work, not because they are deficient in motivation but because of the fact that the necessary infrastructure in the form of working capital and marketing support is not easily available to them.

## Business is Borrowing

Many in the industrially advanced world start business with BORROWING. To some, raising money is not just a science. It is an art as well. Henry Ford I organized the Ford Motor Company in 1903 without putting in one cent of his own money. A quarter of a century later, he was worth a billion dollars. "I was always a great borrower in my early days," says John Rockefeller. Piles of money can be made by any man, whether he has money to start with or not. Money begets money—particularly Other People's Money: OPM. The technique of using other people's money and getting rich is fairly common. You must know how to raise it and then use it. Some of the world's richest and most successful businessmen have mastered this art to their benefit. One can cite the super success story of Conrad Hilton, the world's biggest hotelier. His game was real estate—specifically hotels. He bought them, ran them, tinkered with them, sold them, manipulated them. He did all this through OPM—Other People's Money. He started his fortune with one million dollars! An interviewer asked Hilton, "What struggle did you have in getting the money to build your first hotel, the Dallas Hotel?" He replied, "I almost went broke on that. It was in 1928 and was the first hotel that I had built. I told the owner of the land that I wanted to build a million dollar hotel. I told him that instead of buying land, I wanted to lease it for 99 years. The land-owner shot back, 'I am not Methuselah. I won't live for 99 years.' But I then told him, 'If I don't pay, you get not only the land,

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but the building.' When he had agreed to that and the amount of the lease, then I let him have the big charge. And I would also like the lease to have a clause saying. I could float a loan on the real estate. The land-owner yielded. I just didn't have the experience or the knowledge. There are a lot of things you have got to think about. And though I raised the million it wasn't enough. So I ran out of money. Then, to get out of the jam, I went back to the owner and said, 'Look, if you finish the building and take over, I will give you much more and lease it back to you.' I sold the idea to the land-owner and he agreed." That's how Hilton launched his first hotel venture.

There are countless examples of people who have made their piles with OPM. "Show me a millionaire," said William Tickerson, "and I will show you invariably a heavy borrower." The world's greatest ship-builder, Daniel Ludwig, climbed from nowhere to enormous prominence on OPM. He began as an ordinary paycheck earner but ended with a fortune that has been estimated as high as $3 billion. He owns many of his ventures and properties on right; he is majority owner of most of the others. He has always preferred to move ahead by borrowing other people's money and keeping the ownership to himself.

Norishige Hasegawa, President, Sumitomo Chemicals, is the man behind the phenomenal growth of Japan's chemical industry. An interviewer asked him how his company managed to grow rapidly. He said, "The main reason is the difference with which we and the Anglo-Saxon peoples regard debts. As individuals, we Japanese consider it a shame to borrow money, but we do not apply this philosophy to our companies, which is not the case with Americans and Europeans. It is against their business ethics to go into debt except in emergencies, and they do not manage business on a perpetual borrowing basis. In Japan, after the war, we had nothing. So we could not do business unless we went into debt. Our banks were unorthodox and bold. They often lent money without collateral. Putting aside the question of whether borrowing is good or bad, I think it can be said that unless we pursued that policy our economic growth would have been only one-tenth of what it is. So, looking at things from hindsight, I have no hesitation in saying that our economy lies first in the fact that our business ethics about going into debt are different from those in Europe and America, and, second,

in the daring manner in which our banks extended loans. Today, Sumitomo Chemicals' equity debt ratio is 20-80. If we showed such a balance sheet to bankers in the United States or Europe and asked for loans, they would laugh at us."

## Money as a Teacher

Thus money is the single vital ingredient of any successful enterprise. It is a pre-requisite. John Kenneth Galbraith in his voluminous treatise on *Money* writes: "The history of money teaches much or it can be made to teach much. It is, indeed, exceedingly doubtful if much that is available can be learned about money in any other way. Attitudes toward money proceed in a long cyclical swing. When money is bad, people want it to be better. When it is good, they think of other things. From history, we can also see, more vividly than in any other way, how money and the techniques for its management and mismanagement were evolved and how they now serve or fail to serve." Money, whichever way it is raised, is a precious commodity to be utilized wisely. It is natural that to be successful one has to pay good attention to the quantity of finance. In this connection Paul Meyer makes a very pertinent point in his celebrated work, *How to Become Financially Independent*, when he observes, "The most controversial subject in the entire world is money...This is certainly understandable in view of the fact that money provides us the means to supply so many needs and wants of mankind. The list would be inexhaustible and would run the gamut from the sublime to the ridiculous...The meaning of money is not found in money itself. It is found in the motives, attitudes and values of those who seek to possess it... Millionaires are made, by and large, not by accident, but by their being sensitive to the world around them... When someone finds a need and fulfills it, the shrewd investors are quick to take advantage of the need for capital."

You will say that raising funds in a developing country like India is not such an easy task. I agree with you and that is one reason why you should be very discriminatory in your selection of sources of raising capital. This book, I am sure, will fill the much-felt need. It also gives me an opportunity to share my thoughts and experiences with you. Here I would like to emphasize

that the best way for raising capital is to organize business as a corporation, so to say, to have a written plan. We will discuss, visualize, and in fact draw an outline for such a plan in later chapters.

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*Chapter 3*

# RAISING FUNDS—AN ART AND A SCIENCE

RAISING FUNDS for business is not very easy. From my own business experience, I can say that it is not very difficult either. This may sound paradoxical. It is not my desire to discourage you but to make you aware of plain facts. The basic objective is to make you develop a sense of direction and determination. You have also to be articulate to deal with such facts with courage and confidence to get resounding success. The money which you—as an entrepreneur—require is with a view to start your business venture. There is no business without venture. It is for this reason that it is called "adventure capital". In order to raise adventure capital, you need to persuade others that you and your business are a good risk. In addition to this, you have also to convince them that they will benefit from your business project. On your own, therefore, you ought to be willing to provide for the proposed venture through your own resources and savings. Remember, no one will come forward to invest in your business unless you are yourself willing to put your own money on the line. You will need to raise capital that you personally cannot provide through friends, relatives and personal contacts.

The sources of finance for capital formation can be broadly grouped under two heads. First, there are the internal sources of finance which mainly comprise accumulated provision for depreciation and the ploughed back profits. Secondly, there are the external sources of finance, broadly comprising capital raised from the capital market, borrowings from banks and loans from financial institutions.

We have in India a fairly well-established complex of financial institutions for the provision of term loans. With the nationalization of the major segment of commercial banking, institutional agencies dominate the financial scene. In fact, the problem of

financing enterprises like yours has grown by leaps and bounds, with the result that personal financing of industries, unable to rise to the occasion, has been dethroned from its place of importance and in its place has been installed special financing institutions, formed with a definite aim to finance and promote new industrial undertakings.

### SEED MONEY

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Gradually, the concept of 'seed money' also took firm roots. In an attempt to speed up the industrialization process, all countries have established special institutions to mobilize their resources of capital and channel them into the production economy. Such specialized institutions have certain definite advantages in terms of pooling of resources, diffusion of risks by means of a diversified investment portfolio, access to expert guidance for investment. The governments of a large number of underdeveloped countries desirous of a rapid rate of economic development have either directly established such institutions or promoted their organizations. It is not possible to wait for the capital market to develop sufficient breadth and depth to meet the requirements of industry. In India, the establishment of finance corporations was not an accidental growth. It is the result of a conscious policy adopted by the government to stimulate the growth of new industries and the expansion of the existing ones. Where the saving is automatic in character on account of the low per capita incomes, the government is in an advantageous position to mobilize resources and place a part of this at the disposal of the private sector through the medium of industrial financing institutions.

Historically speaking, the capital market was the first major external source of industrial finance; but in India it is relatively undeveloped and a large proportion of savings are siphoned off by government agencies with the result that market borrowings by private companies are virtually non-existent. Since the nationalization of banks in 1969, public financial institutions have a near monopoly of all loanable funds. The few Indian banks in the private sector are relatively small and their operations are confined only to particular regions. Financial institutions have also certain guidelines to follow. Guidelines issued in June 1971 stipulate that the convertibility clause be inserted in all loan agreements where

substantial assistance is given. With it goes the right to nominate directors on the boards of the manufacturing units concerned so that the financial institutions can actively participate in policy formations. The actual exercise of the option to convert loans into equity depends on the nature of the project and the expected yield on equity. The public financial institutions justify the convertibility clause on two main grounds. It enables them to prevent industrial units from going in the wrong direction and to monitor their progress. Secondly, they feel they should derive the benefits of profits made by use of funds provided by them. In the case of new projects, the option can be used after five to seven years, while in the case of substantial expansion, the decision can be taken earlier. The portion of the loan to be converted varies from 10 to 20 per cent of the total. In rare cases it can be more than 20 per cent.

## New Guidelines

The financial institutions themselves point out that their overall function is limited by the fact that they cannot operate on the basis of purely commercial norms, even though they are expected to show maximum profits. The government recently announced new guidelines which established priorities for the grant of credit to 23 sectors led by fertilizers, cement, sugar, essential drugs and electricity generation. Term loans have been ruled out for 13 industries including cars, airconditioners, refrigerators, television sets, alcoholic beverages, cigarettes and other consumer goods. The guidelines say that the government attaches the highest importance to employment generation, particularly to rural and village industries. Lending institutions are required to ensure that adequate finance is provided to rural and village industries "as well as to projects where a large part of the benefit is likely to flow to rural areas". They have also been asked to examine the possibility of substituting automatic and capital-intensive processes with labour-intensive ones.

Apart from the new guidelines, the financial institutions are required to carry out normal functions such as refinancing and rediscounting, to make sure that backward areas are developed and also to play a promotional role by encouraging new entrepreneurs. The last is done by the seed capital scheme. There

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are separate schemes for providing rupee resources by way of direct loans to industries with import licenses for balancing equipment, technology, consultancy services and directions and designs.

## FINANCIAL INSTITUTIONS

Economic life is unthinkable without finance. The government and the Reserve Bank of India have been conscious of this crucial need. As a result of the deliberate and purposeful efforts made by them, a fairly wide network of financial institutions have emerged. Among these, the Industrial Finance Corporation was established as early as 1948, as the first step in this direction. Since then more and more all-India term lending institutions, with the Industrial Development Bank of India (IDBI) at the apex, have been set up. This was followed by the establishment, at the State level, of State Financial Corporations, one in each State, to meet the needs of small and medium sectors of industry. Then there are institutions set up for providing specialized assistance to specific types of industrial activities. Among these the National Small Scale Industries Corporation Limited makes arrangements for the supply of imported as well as indigenous machines on a hire-purchase basis to the small scale units. It also provides training facilities to skilled workers through its Prototype Design and Training Centres. The Industrial Credit and Investment Corporation was set up in 1955 with foreign participation under the aegis of the World Bank. The Life Insurance Corporation set up in 1956 as a result of nationalization of the existing life insurance companies also provides industrial concerns with risk capital as well as loan assistance. The Unit Trust of India was set up under RBI auspices in February 1964, for mobilizing savings through an attractive financial instrument and channelling it into productive investment through UTI's subscription to shares and debentures of industrial units. The Industrial Reconstruction Corporation of India Limited provides financial assistance for the reconstruction and rehabilitation of industrial concerns which are closed down or face financing risks of closure and which could be made viable with suitable assistance, particularly in the eastern regions.

## IDBI—THE APEX BODY

Since the Industrial Development Bank of India is at the apex of all financial institutions, let us see how it helps the promotion of industries. Set up in July 1964, under the IDBI Act as a wholly-owned subsidiary of the Reserve Bank of India, its principal function is to co-ordinate the activities of the other financial institutions, including commercial banks, to supplement their resources, to plan and promote industries of key significance to the industrial structure and to adopt and enforce a system of priorities in promoting further industrial growth. It has a policy-making function in deciding upon the priorities which are needed to promote future industrial growth. In the first decade it went through several vicissitudes. In 1975, it was restructured and designated as the principal financial institution for co-ordinating, in conformity with national priorities, the working of the institutions engaged in financing, promoting or developing industries and for assisting the development of such institutions and for providing credit and other facilities for the development of industries. The main services rendered by the IDBI are: (i) indirect assistance—to financial institutions and banks through re-finance, to guarantee their obligations, to subscribe to or purchase their securities; (ii) direct assistance—to assist industrial units by granting loans and advances; by subscribing to purchasing or underwriting their securities; by discounting or re-discounting of their bills; by guaranteeing their loans on deferred payments and by rendering technical assistance; and (iii) promotional activities—marketing and investment research, surveys, techno-economic studies, etc.

Immediately after delinking from the RBI, the IDBI has taken several measures to perform more effectively its enlarged role as the principal financial institution. Effective from March 8, 1976, the principal functions and operations of the Bank have been entrusted to two separate wings—the Domestic Wing and the International Finance Wing, each having the same status as the other. The IDBI's statute enables it to have considerable operational flexibility. Therein lies its beauty. It can finance all types of industrial concerns engaged or to be engaged in the manufacture, processing or preservation of goods, or in mining, shipping, transport, hotel, generation and distribution of power, fishing or

providing shore facilities for fishing or in the maintenance, repairs, testing or servicing of machinery or vehicles or vessels or motor-boats or trailers or tractors or for the setting up of estates. The Bank can also assist industrial concerns engaged in the Research and Development of any process or product or in providing special or technical knowledge or other services for the promotion of industrial growth. There are no restrictive provisions in the IDBI Act regarding the nature or the type of security to be obtained from the assisted growth. The IDBI has devised a variety of mechanisms for performing its role as an apex development bank. Such a function involves for the IDBI granting of substantial assistance and even the assumption of leadership role in some areas. It has been assisting directly and otherwise industrial projects in new fields—projects which, because of technological compulsions, are of a large size and require substantial capital investment. The IDBI is thus vitally important to any new enterprise.

*Direct Assistance*

The direct assistance to industrial concerns takes the forms of loans, subscription to and/or underwriting of issues of stocks, shares and debentures and guarantees for loans and deferred payments. Since the IDBI has been created to supplement the activities of other financial institutions, it normally prefers not to assist directly projects whose needs could be met by other institutions. It concentrates on large complicated projects involving huge capital outlay or sophisticated technology, projects promoted by the technician-entrepreneur, projects located in less developed areas of the Corporation, those exploring new areas of technology which might not find ready support from other institutions.

*Backward Area Growth*

As an apex development bank, the IDBI has a special responsibility to remove regional imbalances in the assistance given by various financial institutions. Particularly after 1970, it has made various schemes for assistance to industrial units in backward areas. The schemes have been further liberalized from time to time. A separate department, namely, the Regional and Backward Area Development Department has been set up in 1976 to look after project promotion and associated development activities in

the backward regions. In collaboration with other financial institutions, the IDBI has completed surveys of industrial potential in almost all the backward areas and concessional assistance is being provided to industrial units in these areas.

In 1970, the all-India finance institutions like the IDBI, ICICI and IFCI introduced special schemes of assistance for promoting industrialization of backward areas. The terms offered by these institutions are quite attractive. At present the IDBI provides concessional refinance assistance to the State Financial Corporations and banks in respect of term loans upto districts, provided the paid-up capital and reserves of the recipient units do not exceed Rs. 1 crore. Existing units with expansion schemes are also eligible, provided the paid-up capital and reserves after expansion do not exceed Rs. 1 crore and the increase in the value of fixed capital under the expansion schemes is no less than 25 per cent of fixed capital of the existing unit before expansion. The refinance facilities are also extended to the State Industrial Development Corporations.

The role of the IDBI has been conceived not merely for supplementing existing financial institutions and resources, but also to fill the gaps in the industrial structure and to develop certain vital and strategic sectors. The amortisation of direct loans is widely spread over a period of 8-10 years after a grace period of 2-3 years. The loans are usually secured by a mortgage of the borrowing concern's immovable property and a floating charge on other assets subject to the change in favour of banks, on raw materials, stocks, etc. for working capital borrowings. The years 1970-71 and 1971-72 represented a landmark in the evolving role and functions of the IDBI. This was a period of consolidation and exploration. As a part of consolidation, the structural and functional set-up was streamlined and its methods and criteria sharpened. The IDBI under its statute was expected to play an active promotional role for facilitating a widely diffused process of viable industrialization. This function was taken up by IDBI in 1970 after it attained a degree of maturity in the field of development finance.

The IDBI is instrumental in strengthening the financial structure of the SFCs as well as the other term lending institutions through its subscription to their bonds and shares. To meet the special assistance requirements of "sick" enterprises, the IDBI took the

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initiative in setting up the Industrial Reconstruction Corporation of India in 1971.

The IDBI along with IFCI and ICICI has introduced a system of common appraisal for expediting the processing of applications for direct assistance. Under this system an entrepreneur needs to submit his application in the common application form to only one industrial unit.

*Seed Capital Schemes*

In order to assist new techniques and professionally qualified entrepreneurs in raising promoter's contribution upto the required level, IDBI has evolved "seed capital" schemes for entrepreneurs establishing projects with cost upto a limit of Rs. 10 million. The basic purpose of these schemes under which assistance upto Rs. 10 million may be obtained is to fill up the gap between what the promoters can bring in and what is normally expected as their contribution by the financial institutions. These schemes will be operated through SFCs, SDCs, SIICs, the SFCs handling cases of units where the required assistance is less than Rs. 0.1 million and SDCs and SIICs where the required assistance is between Rs. 0.1 million and Rs. 1.0 million.

*Soft Loan Scheme for Modernization of Selected Industries*

By now you must have noticed that over the years the base of the IDBI's operations has been widened. The objective of the soft loan scheme now in operation is to provide financial assistance on concessional terms to production units in certain selected industries to enable such units to overcome the backlog in modernization, replacement and renovation of their plant and equipment so as to achieve higher and more economic levels of production and thereby improve their competitiveness in the domestic as well as in the international markets. This, you must admit, is highly laudable. The assistance under the scheme is available to industrial concerns in cement, sugar, cotton textiles, jute and certain agricultural industries. The basic criteria for assistance under the scheme will be weakness or non-viability of the industrial concerns arising out of mechanical obsolescence. Industrial concerns which are not in a position to bear the normal lending rate of interest of the financial institutions will be provided concessional assistance to the full extent of the loans. In other

cases, assistance on concessional terms would be provided upto the maximum extent of 66 per cent of the loan (75 per cent in the case of jute industry). Assistance under the scheme will be need-based, as such no minimum or maximum limit for individual loans has been prescribed. While the overall responsibility for the operation of the scheme vests in the IDBI, the work of processing and sanction of assistance will be shared amongst the consortium of the three financial institutions—IDBI, IFCI and ICICI.

*Technical Development Fund Scheme for Providing Rupee Loans for Import of Machinery*

In the context of the government's policy to promote further utilization of capacity to enhance export development and to aid modernization and technological upgradation, a separate fund known as "Technical Development Fund" has been created by the government to provide foreign exchange for import of machinery etc., through a simplified procedure for quicker implementation of the modernization programmes.

*Assistance to Small Scale Units*

The IDBI has also been providing finance on concessional terms to the small scale sector. The share of sanctions to small scale industries and small road transport operators in the total sanction of project assistance by the IDBI has increased from less than one per cent in 1964-65 to about 5 per cent in 1975-76. Upto the end of June 1976, since inception, it has granted refinance assistance aggregating Rs. 261.3 crores to 21,803 small scale units. Small scale units get assistance from the IDBI indirectly through its scheme of refinance and to a limited extent through its bills rediscounting schemes. The IDBI has been operating a special scheme of concessional assistance to these units under the Credit Guarantee Scheme of the Government of India. As it is not possible for the IDBI to reach a large number of small units under the Credit Guarantee Scheme scattered all over the country, the flow of its assistance to this sector has to be indirect in the form of refinancing of loans granted by banks and State Financial Corporations. The SFC or the bank gives a loan to a small or medium-sized unit and in turn gets refinance from the IDBI. The Corporation provides 100 per cent refinance in respect of loans: (i) to small scale units covered under the Credit Guarantee

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Scheme of the Government of India; (ii) to small road transport operators including single truck operators; (iii) to units set up in specified backward areas subject to a ceiling of Rs. 30 lakhs per project per institution: (iv) to other small scale units upto Rs. 5 lakhs, in non-specified backward areas. In all other cases, refinance is provided upto 80 per cent of the loan amount.

For a number of small and medium projects, the IDBI performs a role of a surveyor of supplementary resources and co-ordinator through its scheme of refinancing assistance and bills rediscounting assistance to the commercial banks and the SFCs. These schemes have enabled the IDBI to facilitate industrialization in a large number of states and backward areas.

In the field of medium and long-term export financing, the IDBI again has been playing two major roles through its scheme of refinancing bank's assistance as well as direct participation in export financing with the banks. The IDBI has assumed the leadership role in this field by inducing through appropriate mechanisms, the banks and export houses to remain in close touch with the IDBI.

*Refinance of Industrial Loans*

The IDBI's refinance facilities are available in respect of term loans granted to industrial concerns by co-operative banks, SFCs, State Co-operative Banks and SIDCs. Normally, loans should be for financing fixed assets but may include a portion of working capital, if such working capital is required on a term basis. The minimum amount of loan that is normally refinanced is Rs. 2 million which is relaxable in the case of projects already assisted under the scheme but a lower minimum limit has been stipulated for loans to a small industry covered under the Credit Guarantee Scheme of the government or to units promoted by technicians-entrepreneurs covered under the special guarantee scheme (Rs. 10,000).

Very recently, the IDBI has introduced a special refinance facility under which the large units seeking loans above Rs. 25,000 will have to pay a concessional rate of interest of 6 per cent per annum and the eligible credit institutions will be allowed a service interest payment of 1.5 per cent so that the loans reach the units at the rate of seven and a half per cent. The eligible financial institutions will make the assessment of damage and

determine the minimum amount of money to be sanctioned for rehabilitation of small scale and tiny cottage and village industrial units.

The procedure in respect of loans to the small sector has been put on a semi-automatic basis. The amount of loan covered under the Liberalised Refinance Scheme has been raised to Rs. 0.5 million. Under the scheme, the primary lender is permitted to cover one area and a number of proposals under one application. Apart from the lower rate of interest, certain relaxations have been effected in the scheme so as to offer additional incentives to the small scale sector.

*Bills Rediscount Assistance*

The IDBI rediscounts bills and promissory notes arising out of sales of indigenous machinery on deferred payment basis. Under the scheme, bills and promissory notes drawn in favour of or by the machinery manufacturers are discounted by them in the first instance with their bankers which, in turn, rediscount the same with the IDBI. Facilities under the scheme are also available to approved engineering concerns which get the machinery fabricated according to their own specifications and design and sell them under their own names. Sales made by selling agents and distributors of the machinery manufacturers to purchaser-users on deferred payment basis are also eligible for assistance provided the agents/distributors have paid the manufacturers for the machinery under sale before the execution of relative bills and promissory notes.

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*Chapter 4*

# IFCI—FIRST IN THE FRAY

IN THE last chapter we saw how the starting of a complex of non-bank financial intermediaries to encourage, assist and direct the growth of private industrial enterprises has been part of the industrial policy of the Government since Independence. We discussed the widening role of the Industrial Development Bank of India, the apex financial institution. It was, however, the Industrial Finance Corporation of India which was the pioneer among these institutions. It was set up even earlier than the IDBI, in 1948, by a special enactment of Parliament to initiate a new pattern of industrial finance in the country different from what existed in the pre-Independence period. The objective was not only to diversify industrial and financial activity, but also to ensure that "the ownership and control of the material resources of the community are so distributed as best to subserve the common good". The purpose is to make medium and long-term credits more readily available to industrial concerns particularly in circumstances where normal banking accommodation is inappropriate or recourse to capital issue methods is impracticable.

## FUNCTIONS

The functions of the Corporation listed in the Act are: (i) guaranteeing loans raised by industrial concerns which are repayable within a period not exceeding 25 years and are floated in the public market; (ii) underwriting the issue of stock, shares, bonds or debentures by industrial concerns, but to be disposed of within seven years; (iii) granting loans or advances to or subscribing to debentures of industrial concerns repayable within a period not exceeding 25 years, and (iv) extending guarantees in respect of deferred payments by importers who are able to make such arrangements with foreign manufacturers. Subsequent amendments to the Act have widened the scope of the Corporation so as to guarantee (i) loans raised by industrial concerns from

scheduled banks or State co-operative banks; (ii) deferred payments in connection with the purchase of capital goods manufactured in India, and (iii) with the prior approval of the Central Government loans raised from or credit arrangements made by industrial concerns with any bank or financial institutions outside India in foreign currency.

## Criteria Adopted for Providing Assistance

As the industrial projects seeking assistance are in the nature of business risks, the Corporation examines them in the light of several factors involved, viz., the relative industrial and national priority of the project, the technical, financial and economic viability of the project, the experience, probity of the promoters, their own financial contribution to the project cost, the quality, adequacy, competence of management responsible for the construction and operation of the project. The Corporation's approach is "project oriented" and the progress has been impressive.

As on March 31, 1978, the IFCI has sanctioned financial assistance amounting to Rs. 731.40 crores for 1001 industrial projects spread all over the country. About 350 projects in the industrially less developed areas were sanctioned financial assistance amounting to Rs. 276.78 crores. Industrial co-operatives, which are an effective instrument for rural reconstruction and development, were sanctioned financial assistance aggregating Rs. 155.64 crores; about 160 co-operatives were beneficiaries of this assistance. The Corporation has sanctioned financial assistance of Rs. 73.38 crores for 170 projects promoted by new entrepreneurs and technologists. During the year, the Corporation introduced a soft loan scheme for financing the modernization and rehabilitation of certain industries — sugar, cotton, textiles, cement and engineering. Under this scheme, the Corporation sanctioned assistance to the tune of Rs. 10 crores for 32 projects.

## Joint Financing of Projects

In the financing of projects involving large capital outlays, there has emerged the practice of a joint consortium financing among the financial institutions at the all-India level. In some cases, there is a consortium of all-India financial institutions, commercial

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banks, State-level financial institutions, etc., each institution contributing its share in the light of its policies, criteria and resources. In the case of such projects, joint technical and financial appraisals are carried out by teams of officers of the participating institution. The all-India financial institutions have adopted the practice of designating one of the participating institutions as the "lead institution" to take the responsibility of arranging for a joint inspection of the plant site by the officials of all the institutions. It has to organize collective discussions with the promoters and evolve a common approach towards various aspects of the project being financed by the concerned financial institutions.

Before granting a loan, the Corporation calls for information from prospective borrowers regarding the nature of products manufactured, location of the factory, title to land, buildings, availability of power, technical staff, market prospects, estimated cost of production, quality of machinery, value of security offered, the purpose for which assistance is required and the capacity to earn profit and to repay the loan. This is followed by an inspection of the factories by officers of the Corporation, who are required to report on the books and accounts of the concern, valuation of assets, efficiency of management, availability of raw materials and markets for products. The Corporation obtains periodic reports from the concern and also undertakes periodic inspection to ensure the proper utilization of loans.

## Pre-Sanction Requirements and Other Formalities

Before making a formal request for financial assistance, the applicant concerned should have a Certificate of Incorporation as a limited company or a Registration Certificate as a Co-operative Society and should have normally obtained a Letter of Intent or a Licence under the Industrial Development & Regulation Act 1951, if applicable. It would also be desirable for applicants to have obtained a clearance, at least in principle of the Capital Goods Committee, where import of capital goods is involved. The applicant concerned should also have obtained and applied for the permission of the Controller of Capital Issues to issue capital, wherever necessary. The approval of the Central Government regarding the terms of technical and financial collaboration agreement, if any, should also be obtained. All eligible concerns,

or those who propose to constitute themselves as such, are free to approach the Corporation before making a detailed request for assistance. Applications for assistance must be accompanied by details about the project. The all-India financial institutions have a Common Loan Application Form issued to it. A team consisting of technical and financial officers and an economist is deputed to carry out an inspection of the undertaking. The team visits the plant site and has detailed discussions with the executives of the applicant concern. Thereafter, an appraisal report on the project is prepared and placed before the appropriate Advisory Committee, which consists of experts drawn from the public and private sectors, having specialized knowledge of the particular industry. The representatives of the applicants are invited to meet the Advisory Committee, so that any additional information or clarification that may be required is made readily available. After the project has been examined by the Advisory Committee, the case is placed before the Board of Directors for their decision. After a loan or any other type of financial assistance is sanctioned by the Board of Directors, a "Letter of Intent" is issued to the applicant communicating the sanction in principle and also indicating the main terms and conditions governing the same. The Corporation appraises industrial projects for financial assistance as risks and examines their technical, financial and economic soundness. It judges each project in the light of the several considerations involved, e.g. the industrial priority of the project relative to the economy, the sources and availability of raw materials and whether imported or indigenous, the technical, financial and economic viability of the project, the marketing prospects of the products to be manufactured, the profit earning capacity of the project, the experience and profitability of the promoters and the quality of management.

### Terms and Conditions of Financial Assistance

The current rate of interest on rupee and foreign currency loans is 12 per cent per annum, less a rebate of 1 per cent per annum for punctual payment of instalments of the principal capital and interest thereon. In respect of loans to the jute industry and export-oriented cotton textile mills as also loans to the hotel industry, the rate of interest charged is 12 per cent per annum with a rebate of

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2 per cent for punctual payment of instalments.

## Maturity of Loans

Loans are repayable in semi-annual instalments over a period of 5 to 12 years depending on the profit-earning capacity and the cash flow position in each case. The Corporation generally allows a grace period of about 2 to 3 years after the initial disbursement of the loan. Loans are generally secured by a first legal mortgage of all the block assets of an industrial concern, both existing and those to be acquired in future.

## Risk Capital

The Corporation has started an interest-free "risk capital foundation" to provide "seed capital" for new entrepreneurs. It also subsidizes the cost of assignments taken up by the technical consultancy organizations. There are schemes for making marketing studies for Indians abroad and a special division for promoting ancillary industries. Concessional finance and subsidies are available for projects envisaging commercial exploitation of indigenous technology and a host of other schemes designed to meet the needs.

## Concessional Assistance to Industrially Less Developed Areas

The Corporation has been paying particular attention to projects set up in less developed areas. Nearly 33 per cent of its total sanctions since its inception have gone to projects located in less developed areas. The Corporation has completed 28 years of service to industries. Over these years, it has sanctioned assistance amounting to Rs. 5588 million for 7941 projects spread all over the country. Like any other decentralized bank, the Corporation has devised procedures for a proper end-use supervision and follow-up once the loan is sanctioned. Until a few years ago, the end-use supervision and follow-up was primarily the responsibility of the branch officer located in the four metropolitan cities.

The objectives of the end-use supervision and follow-up can be enumerated as follows :

(a) To watch and ensure that the assistance is being utilized for the purpose for which it was sanctioned;
(b) During the construction stage, to see whether the progress of construction is proceeding according to schedule;
(c) To assess whether the project will be completed within the original estimates of capital cost; if not, to what extent there is likely to be an over-run;
(d) Production performance and assessment of working results;
(e) Efficiency of management;
(f) Regularity in submission of progress reports and returns;
(g) Special problems pertaining to any particular industry.

### Consortium Approach—Lead Institution Concept during Follow-up Stage

With a view to improving the existing monitoring mechanism for tackling problems during follow-up stages, particularly those relating to industrial sickness, the concept of "lead institution" has been extended to the sphere of follow-up by the all-India financial institutions.

The IFCI offers concessional finance for projects in the notified industrially less developed areas. It is also participating along with other all-India term lending institutions, in the administration of the Soft Loan Scheme for the modernization and rehabilitation of certain industries. Recently, it has announced new promotional schemes which are essentially in the nature of encouraging indigenous technology, ancillary industries and new and small entrepreneurs. Any limited company or a registered co-operative society in the medium and large scale sector may apply for assistance.

### Progress Reports

Common formats for the institutions at the all-India level have been evolved, requiring submission of progress reports, during both the construction and operation periods, keeping in view the special features of each industry. These forms have been drawn up on the basis of the experience which shows that the main problems faced by an assisted concern during the construction stage related to the arrangement of finance, delays in implementation, overruns

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in costs beyond initial estimates and the deficiencies in management. Apart from enabling the Corporation and other institutions to advise the concern to take remedial steps, the progress reports help the institutions to disburse funds for the project in keeping with the progress achieved and the financial plan.

## BENEVOLENT RESERVE FUND

The IFC Act 1948, as amended in December 1972, provided for the creation of the Benevolent Reserve Fund. With the creation of the Fund, it has been possible for the Corporation to undertake various promotional activities. As provided, the Fund is being utilized for (a) meeting the cost of feasibility studies, project reports, market and techno-economic surveys; (b) assisting projects promoted by new entrepreneurs and technologists; (c) promoting research in financial industrial management by creation of chairs in Universities of financial institutions. The creation of the Benevolent Reserve Fund has given a new dimension to the promotional activities of the Corporation.

### 1. *Industrial Potential Survey Reports*

The Corporation has participated in surveys of the less developed States and territories sponsored by the IDBI, with a view to assessing their industrial potential and for identifying projects which could be implemented over the short term.

### 2. *Commissioning of Feasibility Studies*

Another important promotional measure is the commissioning of feasibility reports on candidate projects — the cost of the feasibility reports being shared among these institutions. These reports are commissioned with a view to attracting the attention of intending investors to the possibilities of the various projects.

### 3. *Technical Consultancy Organizations*

The financial institutions have jointly set up technical consultancy organizations in some of the less developed States. These are the Kerala Industrial and Technical Consultancy Organization Limited, North-eastern Industrial and Technical Consultancy Organization Limited, Bihar Industrial Consultancy Limited, Andhra Pradesh Industrial and Technical Consultancy Organization Limited,

Technical Consultancy Organization Limited in Orissa. These organizations are intended to provide technical consultancy services to the promoters of new industrial projects as well as to existing units in the fields of project formulation and implementation.

4. *Management Development Institute*

The Corporation has sponsored the Management Development Institute with the objective of providing training in modern management techniques to the clients of the Corporation particularly to new entrepreneurs and technologists who for the first time, promote an industrial project with financial assistance from the Corporation. The MDI started conducting courses in March 1974. Included among the programmes conducted by the MDI were those which were tailored to the specific needs of the Corporation's assisted concerns, such as managing a light engineering industry during recession and recovery, costing and cost control in cotton spinning mills, management of the mining industry, management of the sugar industry and sugarcane development. Consequent upon the establishment of the IDBI, the shares held in the Corporation by the RBI and the Central Government were transferred to the IDBI which also acquired additional shares to the extent of Rs. 134.60 lakhs so as to bring its total holdings to 50 per cent of the paid-up capital of the Corporation.

## Risk Capital Foundation

The Corporation has sponsored the Risk Capital Foundation as a Society under the Societies Registration Act 1860. The main objective of the institution is to provide assistance to new entrepreneurs, particularly technologists and professionals, for promoting industrial projects by giving soft loans to enable them to provide a part of the equity capital as promoter's contribution in respect of projects which have been sanctioned financial assistance by the IFCI alone or jointly with other all-India financial institutions. The loans from the Foundation are interest-free, but carry only a nominal service charge of 1 per cent per annum on the amount outstanding.

You will concede that for a new entrepreneur the facility is a God-sent one.

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*Chapter 5*

# THE ABC OF FINANCING

FINANCE IS the most crucial element in industrial enterprise. Its terms and conditions of availability for specific activities determine the direction and nature of industrial growth and economic prosperity.

## THE INDUSTRIAL CREDIT AND INVESTMENT CORPORATION OF INDIA

The Industrial Credit and Investment Corporation of India was set up in 1955 as part of the effort to build the financial infrastructure needed for industrial development. It is authorized to undertake the usual functions of an industrial development finance company viz., medium and long-term lending, investing in equity, underwriting shares and debenture issues, guaranteeing loans and providing managerial and technical assistance to entrepreneurs. As an industrial financing institution, the ICICI played its part in industrial development by concentrating its resources in the development of the country's new industries by providing risk capital and by acting as a channel of foreign currency funds for financing capital goods. The central objective of the ICICI was to encourage and assist industrial development in the private sector. The primary purpose for which the ICICI makes available funds is for the purchase of capital assets in the form of land, building and machinery. It has made special efforts to assist new entrepreneur projects being established in backward areas. Projects which are conducive to export promotion or those which lead to better utilization of indigenous raw materials or have a high employment potential rank high in the assistance programme. The various forms of financial assistance provided by the ICICI are :

(1) Long- and medium-term loans (both rupee and foreign currency) not exceeding 15 years. Foreign currency loans are primarily for importing capital equipment and technical services;

(2) Equity participation;
(3) Underwriting of public and private issues and offers of sales of industrial securities, viz. ordinary shares, preference shares, debentures and debenture stock;
(4) Guaranteeing payments of loans from other private investment sources.

*Terms and Conditions of Assistance Offered*

While the composition of assistance has varied from year to year consistent with the resources position, the major form of assistance provided has been in the form of foreign currency loans. Any limited liability company or a sole proprietary concern or a partnership firm or an industrial co-operative society, may approach the ICICI for assistance in financing a sound proposal for the establishment, expansion or modernization of an industrial enterprise. An applicant may be an Indian or a foreigner, his plans may provide for investment in any part of India; he may require assistance in any form. He must be prepared to make an adequate contribution to the resources required for his proposal. There are no firm limits on the size of an enterprise nor is there a maximum or a minimum limit on the investment it will make. In practice, the lower limit on finance provided by the ICICI to companies with a limited liability is set at Rs. 0.5 million as there are other institutions set up to provide assistance of lower amounts. The limit however does not apply to foreign currency loans.

Loans are not disbursed in a lump sum. They are disbursed against evidence presented of equipment purchased or expenditure incurred and in keeping with the financial plan agreed to with the promoters — for financing the project. Loans are generally granted for periods upto 15 years. The repayment period depends on the estimated cash position of the enterprise and the purpose of the loan. The ICICI normally allows a period of grace before the repayment begins in order to allow the projects to come into effective production.

The ICICI quotes terms and conditions for assistance in keeping with the existing practice among financial institutions. Special emphasis has been laid from the beginning on the role of the ICICI in underwriting. The applicant is notified of the rates of the ICICI's underwriting commission at the appropriate time

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and the commission is payable in accordance with the terms of the letter of underwriting. Annual sanctions of assistance by the ICICI, which were around Rs. 30 crores in 1965, are now in the region of Rs. 150 crores. Since its inception in 1955, till today, the ICICI's sanctions of assistance have aggregated Rs. 1,000 crores distributed over 1,300 industrial companies.

In the case of foreign currency loans, it is necessary to have government consent, e.g. Capital Goods Committee clearance, before a proposal can be considered by the ICICI. While examining the application, the ICICI scrutinizes in particular the capital structure and the question of debt and equity ratio. It tries to ensure that the financial structure of the company concerned has within itself a built-in safety factor to enable the company to withstand any shocks that the enterprise may face in the early stages, be it in the form of overrun in the cost compared to the original estimates offered or market problems. When it is satisfied with regard to the overall viability of the project, the Board of Directors sanctions assistance to the project and the Legal Department of the ICICI undertakes the processing of legal formalities. Thereafter, the agreement is drawn up and signed by the ICICI and the promoters of the project. Whatever the form of investment, the ICICI does not ask for or take a direct part in the day-to-day management of an enterprise; it assists in financing.

*Promotional Activities*

The Corporation has set up a Project Promotion Department which looks after the promotional activities of the ICICI in conformity with the overall government policies. The department handles two distinct but associated activities: one relates to backward region development and the other seeks to provide promotional services and assistance to individual projects on a selective basis.

With the expansion in the volume of its operations, there has been a considerable shift in the composition of the ICICI's business. The ICICI's previous concentration in the financing of non-traditional industries has in recent years given place to a different order of priorities.

The ICICI's operations, to begin with, were more or less exclusively directed to the financing of the private sector of industry. In keeping with the changing factors affecting sponsor-

ships in Indian industry, the co-operative and the joint sectors have been claiming a growing share of the ICICI financing. In the co-operative sector, sugar co-operatives have been the principal recipients of the ICICI's assistance. The joint-sector projects financed by the ICICI comprise both medium and large-sized projects, some of them very large ones. Nearly 40 per cent of the ICICI's assistance now flows to the backward regions in the country.

*Merchant Banking Division*

The ICICI has also set up a Merchant Banking Division with the object of advising clients on raising finances in suitable terms of restructuring of finances in existing companies when required and assisting the companies on merger proposals. It provides assistance for preparation of proposals, for submission to financial institutions and banks and for negotiating with them in arranging and underwriting loans. The Division also acts as Managers to the Issue of Capital and in completing the various formalities connected with the public issue as also in completing the various legal formalities for raising loans.

## Life Insurance Corporation

The Life Insurance Corporation came into being in 1956 as a statutory institution set up under the LIC Act of 1956, after the nationalization of the life insurance business in the country. The term LIC implies different connotations to different people. For the common man, the LIC means an insurance cover to his family. For an industrialist, it means a source of capital. For the government and associated bodies it means a source of development finance for their various welfare activities. For the Planning Commission, the LIC is an important instrument for mobilization of savings on a long-term basis. The LIC has gradually developed into a specialized all-India financial institution. It plays an important role in the capital market as the largest institutional investor. The primary function of the LIC is to sell to the public cover against the risk of premature death. Life insurance as an instrument of saving can be successful if the return on the investment is sufficiently attractive, besides being a cover against the risk of death for dependents. Life

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insurance funds are of a long-term nature and hence they can be suitably invested in long-term securities of industrial concerns. While investing life insurance funds, principles of safety, yield, liquidity and distribution must be taken into consideration. The proper investment of life insurance funds contributes immensely to the strength and stability of the capital market by filling up a big gap in the field of available financial resources.

The investment activities of the LIC as a corollary of the general expansion of its business have registered a phenomenal rise in recent years. With a view to diversifying its investments, the LIC invests in shares of promising industrial enterprises, grants loans on mortgage of fixed assets and underwrites new issues, apart from making traditional investments in government securities. It maintains a close contact with other financial institutions such as the IDBI, IFCI, ICICI for co-ordination of its investment. The diversification of the investment portfolios is an important way in which the safety and security of investment is achieved. This process involves, first of all a spreading of investments among various types of assets—mortgage loans, corporate bonds, corporate stocks, State and local government securities, investment in real estate, etc. Diversification also requires the spreading of investments among various types of business activity in order that a technological change or temporary difficulty in a single industry will not adversely affect a large portion of the investment portfolio.

### *Nature of Financial Assistance Offered*

The Corporation can invest only in securities, bonds, debentures or shares of public sector undertakings and public limited companies and also give direct loans to such enterprises and to industrial co-operatives. It does not invest in private limited companies. The LIC subscribes to the share capital of companies, both preference and equity and also to bonds and debentures. It also provides rupee loans with the option to convert a portion of this amount into equity. It underwrites shares and debentures but it does not guarantee payments or deferred payments as loans.

### *Lending Rates*

The LIC charges interest at the rate of 12 per cent per annum payable half yearly on its loans. A rebate of 1 per cent is given for prompt payment of interest and instalments of the principal.

### *Procedure for Financial Participation*

Any institution seeking financial participation of the LIC is required to apply in the prescribed form giving full details of their project. All the formalities regarding industrial licence, capital goods clearance, import licence, government approval of technical collaboration agreement, consent of the Reserve Bank for foreign capital participation, etc. should have been finalized before the application can be processed.

In recent years, many of the proposals for financial assistance are made jointly to all the principal financial institutions. With a view to evolving a common approach to such proposals, the major financial institutions, viz. IDBI, IFCI, UTI and LIC hold inter-institutional meetings where the proposals are discussed. Based on the detailed examinations of proposals, decisions in the LIC are made by its Investment Committee for underwriting the share capital or debentures or grant of a loan to a company.

### *LIC Emerges as the Largest Single Investor*

It must be said that in recent years LIC has emerged as the biggest single source of investible funds in the nation for developmental and social purposes. It has so far made Rs. 1900 crores of investments in agriculture, power, housing, water supply and other social schemes. The Corporation has taken the benefits of life insurance beyond the "affluent urban clientele" and is channelling more investible funds in socially productive sectors. At the end of March 1978, the LIC's life funds had a book value of Rs. 4500 crores. Besides investments in social schemes, it has put Rs. 1641 crores in the government and other approved securities to finance other nation-building activities.

The LIC has an interest—almost a vested interest!—in the health of the people. It takes interest in providing pure drinking water and adequate facilities for disposal of sewage in both urban and rural areas. As a result of its financial assistance, 843 municipalities in 16 states covering over 53 per cent of their total urban population have been able to provide drinking water facilities. Besides, 58 zilla parishads have also received financial assistance for their piped water supply schemes. As a result of the Corporation's conscious efforts, its net investment for water supply and sewerage facilities rose to Rs. 210 crores at present as against only Rs. 11 crores a decade ago. The LIC has provided over Rs. 775

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crores by way of loans and purchase of bonds of different State Electricity Boards. It has pumped in funds for generation and distribution of electricity because it considers power as one of the basic factors of infrastructure for agricultural and industrial development of the country.

*Housing Schemes*

Housing is another important sector which has received large assistance from the LIC. Massive efforts at the Central and State government levels are under way to solve the chronic shortage of housing accommodation. At the end of March 1978 the LIC's net investment for housing schemes amounted to Rs. 592 crores. Its loans to state governments for housing constituted about 70 per cent of the total resources utilized by these governments for housing. The Apex Co-operative Housing Finance Societies in different states have also been major beneficiaries of such help. In Borivli (Bombay) about 2,000 tenements have been constructed. More than 450 of the 1,000 tenements have been built at Bangalore and other township projects have been undertaken at Hyderabad, Ahmedabad, Kanpur, Delhi, Faridabad, Chandigarh, Lucknow and Ludhiana. The LIC has also assisted the Kerala Government in "One Lakh Houses Scheme".

Agriculture is another area in which the LIC has contributed substantial funds. As on March 1978, over Rs. 178 crores were invested in the debentures of the land development banks. It has also been rendering financial assistance to industries in the private sector. Such finances is made available in the form of underwriting shares and debentures and grant of direct loans. For capital intensive industries like paper, fertilizers, cement, etc. the finance is made available in consortium with the all-India term lending institutions like IDBI, IFCI, ICICI, GIC and UTI. As at the end of March 1978, the Corporation's net investment by way of shares and debentures of companies amounted to Rs. 288.83 crores. Besides this, by way of direct loans the LIC disbursed Rs. 113.28 crores to private sector industries.

The LIC has been financing the programme of setting up industrial estates. So far, it advanced loans to the extent of Rs. 7.5 crores for setting up industrial estates. Its assistance to the tune of Rs. 104 crores to the various financial corporations has contributed significantly to the development of small and medium scale

industries. All this assistance has created thousands of employment opportunities for skilled and unskilled workers in the country. The LIC has made considerable headway in the sphere of rural business. In 1977-78, of the 18.5 lakh policies, 5.72 lakh were from the rural sector. Out of the total ordinary business assured of Rs. 2,004 crores last year, business from rural areas amounted to Rs. 495.60 crores.

During the year ended 1977-78, the LIC's total business in fact has crossed Rs. 20,000 crores mark and touched Rs. 20,190 crores. The new business introduced during 1977-78 amounted to Rs. 5,805 crores. The LIC's total income during 1977-78 amounted to Rs. 1,017 crores as against Rs. 925.70 crores in the preceding year. Its total new business has risen from just Rs. 278 crores in 1957, the first year of nationalization, to Rs. 5,791 crores in 1977-78. The number of policies, which was 47 lakhs at the time of nationalization, has gone up to 208 lakhs by 1977-78. The Corporation's premium income has increased to Rs. 109 crores in 1977-78 as against Rs. 88.12 crores in 1956-57.

You must have seen that in keeping with the policy of stepping up investments in the priority sector most financial institutions have changed their investment portfolios. The LIC has now started taking more interest in priority sectors of the economy, such as power generation, housing and water supply. In 1977-78, a gross sum of Rs. 317 crores was invested in these sectors compared with Rs. 289 crores in the previous year. This, one must say, is a healthy sign.

## Unit Trust of India

The Unit Trust of India is a statutory investment institution in the public sector established in February 1964. The basic idea underlying the Trust was "to afford the relatively small investors a means of acquiring a share in the widening prosperity based on steady industrial growth of the country, which combines the advantages of a minimum risk and a reasonable return." In pursuance of the objectives, the Trust introduced the Unit Trust Scheme in 1964 under which it sells and repurchases units of the face value of Rs. 10. These units are sold in multiples of ten with a minimum of ten units. The Trust provides support either alone or along with other term-lending institutions to priority and core sector projects

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and those located in backward areas. The assistance is in various forms like underwriting of shares, debentures and bonds, subscription to public issues and subscription to privately placed debentures. Investment in Units combines the advantages of safety of capital, steady yield, growth potential, good liquidity and also valuable tax concessions.

The Trust invests in business and industry directly by subscribing to and underwriting of new issues and companies and indirectly through purchases of securities from the stock market thereby releasing funds for fresh investment by other investors—individual and institutional. The Trust's investment covers a judiciously selected diverse portfolio of securities designed to give to the unit holders security of capital, besides a reasonable return and capital appreciation.

*Normal Terms of UT Underwriting of Capital Issues*

Underwriting proposals are examined by the Trust from the point of view of viability of projects, prospective earnings from investments to the Trust and prospects of capital appreciation. Consistent with those considerations, the Trust underwrites public issues of equity shares, preference shares and debentures. While the important considerations in underwriting capital issues are previous financial performance and management record as well as future prospects, in the case of preference shares, the Trust normally insists on the maintenance of three times equity cover to the preference shares as required by the Controller of Capital Issues. Investments by the Trust in any one company is restricted to certain specified limits in the interest of diversification.

*Concessions to Non-Resident Indians*

The Trust has been granted general permission by the Reserve Bank of India to sell units to non-residents. Non-residents are required to obtain prior permission of the RBI for purchase of units. Non-residents can buy units by remitting funds from abroad or by making payment from their non-residents' accounts in India. If units are acquired by remitting funds from abroad or from non-resident (external) accounts maintained in India, dividend on and sale proceeds of units can be repatriated in foreign exchange, if the investor so desires. The Trust has tried to popularize the unit among non-residents some of whom understand the significance of

units relatively better because units are a popular avenue of investment in Western countries. Sales of units to non-residents went up by about 64 per cent to Rs. 95.16 lakhs during 1977-78 as against Rs. 58.00 lakhs in the previous year.

Non-resident unit holders also enjoy significant tax concessions. If units are bought through remittance in foreign exchange or through payment from a non-resident account kept with a bank in India, income from and investment in units are totally exempt from income-tax and wealth-tax, respectively.

Through a decade of vicissitudes, the UTI has succeeded in raising its investible funds to nearly Rs. 300 crores. The year 1977-78 witnessed an aggregate sale of units of Rs. 73.27 crores, showing a rise of 112 per cent over the previous year's level of Rs. 34.59 crores. More satisfying was the progress under the Unit Linked Insurance Plan, where business received during the year exceeded (by a margin of 41 per cent) the business recorded during the entire period of previous six years of operation of the Plan. This performance could be attributed partly to the stepping up of the rate of dividend from 8.75 per cent for 1975-76 to 9 per cent for 1976-77 in the case of Unit Scheme 1964 and from 7 per cent to 8 per cent in the case of Unit Scheme 1971.

While investible funds increased from Rs. 214.41 crores in 1976-77 to Rs. 288 crores in 1977-78, the total investments in corporate securities increased from Rs. 187 crores to Rs. 212 crores, showing a relatively minor rise. At the end of the year, the Trust had investments in the securities of 626 companies against 591 companies at the end of the previous year.

The factor that encouraged investment in units was the downward revision of interest rates of bank deposits, first in June 1977 and again in March 1978 which sharpened the competitive edge of units.

### Industrial Reconstruction Corporation of India Limited

The IRCI was incorporated as a public limited company on April 12, 1971. Several industrial units particularly in the Eastern Region, turned sick in the recent past as a result of various factors. These required to be rehabilitated having in view their importance to the economy and the needs of employment of a large work-force.

The IRCI has an authorized capital of Rs. 250 million and a

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subscribed capital of Rs. 100 million. The IDBI has subscribed 50 per cent of the share capital and the balance is shared by IFCI, ICICI, LIC, SBI and the 14 nationalized banks. The IRCI's paid up capital is Rs. 100 million.

The functions of the Corporation are :

(1) Financial assistance normally not available from normal financial and banking channels;
(2) Technical assistance and guidance in pulling the ailing units out of the morass and attaining viability;
(3) Managerial assistance in the fields of administration, finance, marketing, industrial relations, etc. either directly or through helping in the selection of the right type of executives and other personnel;
(4) Suggesting on the basis of the study, restructuring of capital resources and rationalization;
(5) To suggest, arrange, procure and provide such expedients as are incidental or conducive to the overall reconstruction and viability of the unit concerned.

The modus operandi is first to diagnose the case on which reconstruction needs to be undertaken. The services of good technical consultants are also availed of to find out precisely the nature of technical adaptations required. Reliance is placed on the built-in potential of a unit for economic viability after its reconstruction and on the degree of involvement, present and future, of the financial institution with whom the IRCI maintains a close liaison.

### *Lending Rates*

The IRCI charges an interest rate of 8½ per cent per annum on its loans. In respect of units in backward areas, a lower rate of 7 per cent is charged. In the case of small scale industrial units requiring reconstruction finance, the rate of interest charged is at 7½ per cent.

### *Magnitude of Operations*

Since its operations in April 1971, upto the end of June 1976 the total sanctions of reconstruction assistance by way of loans and guarantees aggregated to Rs. 335.2 million covering 81 units, the corresponding disbursals amounted to Rs. 251.8 million.

The IRCI has promoted a modern Central Textile Processing House at a capital outlay of Rs. 45 million having processing facilities of 0.15 million metres of cloth per day in order to ensure greater profitability of the textile mills particularly in the Eastern Region. A company called Textile Processing Corporation of India Ltd. was incorporated as a public limited company in July 1973. The financial arrangements have been tied up with the IDBI, IFCI, ICICI, UTI and three nationalized banks in one form or another.

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*Chapter 6*

# FUNDING ENTREPRENEURIAL ASPIRATIONS

ARE YOU THINKING of setting up a new project? Have you decided upon the location? Have you identified your product? What would be the amount of money required? Would the project be in the large or small-scale sector? Or would it be in the medium-scale sector? If you are on the verge of a decision in terms of setting up a new project or diversifying your line of product, at every stage you will need facts. You would like to know whom to approach, and how and where to approach them. You may not find all this information in one place. You may not be aware that as there are all-India financial institutions, each state also has its own financial institution and development corporation to provide you with assistance, financial and non-financial, technical and non-technical and other help that you may need in your career as an entrepreneur. A State Financial Corporation has a broad objective—to attract new industries to its own State. Each State has laid down its policy for the purpose. Some States go very far to lure entrepreneurs away from other States. Some succeed, some do not. One way is to provide funds on soft terms. Some offer loans and various other facilities on attractive terms for developing rural and backward areas. In a nutshell, these incentives and concessions relate to:

(1) Allotment for developing plots and sheds with all the necessary infrastructure facilities;
(2) provisions of water, power and communication at concessional rates;
(3) grant of price preference to the products of local units in the matter of government projects/programmes;
(4) grant of tax concessions and exemptions;
(5) preparation of feasibility reports, including market surveys, technical guidance, training facilities, marketing of finished products, etc.

The State Financial Corporations have traditions of their own. The necessity for such corporations arose out of the difficulty realized by the all-India financial institution—Industrial Finance Corporation—to cater to all types of industries, irrespective of their size. These corporations supplement the activities of the IFC in more than one sense. While the IFC helps finance large industries, the SFCs finance the growth of small industries so as to ensure balanced industrial development. The area of operation of a State Financial Corporation is generally co-terminous with the State concerned. They render assistance to industrial concerns

(1) Which are organized on a proprietorship or partnership basis or are co-operative societies;
(2) which are engaged or to be engaged in the manufacture, preservation or processing industries: mining, hotel industry, transport of passengers or goods by road, water or air, generation or distribution of electricity or other forms of power; maintenance, repair, testing or servicing of machinery of any description, or vehicles, vessels, motor-boats, trailers or tractors; assembly repairing or packing of any article with the aid of machinery or power.

### FORMS OF FINANCIAL ASSISTANCE OFFERED

(1) Granting of loans and subscribing to the debentures of industrial concerns, repayable within a period not exceeding twenty years;
(2) guaranteeing loans raised by industrial undertakings in the capital market or from scheduled banks or State co-operative banks;
(3) guaranteeing deferred payments due from any industrial concern in connection with its purchase of capital goods within India;
(4) underwriting the issue of stocks, shares, bonds or debentures by industrial units;
(5) subscribing to the stocks, bonds or debentures of an industrial concern out of the funds representing the special class of share capital subscribed by the State Government and the Reserve Bank in accordance with the provisions of Section 4 A of the SFCs Act, 1951.

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The main activity of the SFCs is providing loans and only a few of them have underwritten shares of industrial concerns. The SFCs grant loans mainly for the acquisition of fixed assets. Foreign currency loans from IBRD are also being made available to SFCs, through the IDBI, for providing loans to small- and medium-scale industrial units for import of plant and machinery and/or technical know-how.

The loans given by the SFCs are usually for a period of upto 10 or 12 years and are secured by a first charge on the fixed assets of the borrowers. SFCs normally keep a margin of 40 to 50 per cent in giving loans against fixed assets. The effective lending rates of SFCs vary between 8 per cent and 14.5 per cent, depending on the type of borrower and the nature of the industry and are mostly linked to the rates at which refinance is made available by the IDBI.

The resources of the SFCs are derived from (i) their paid-up capital; (ii) bonds, debenture issue and borrowing from the Reserve Bank; (iii) deposits; and (iv) reserves.

The role of SFCs in extending financial assistance to different sections of industrial activity has varied from state to state in regard to the number of cases sanctioned and amounts disbursed as also the type of assistance given. This can be partially explained by the rather uneven demands made on those corporations by the entrepreneur. However, their role in financing small-scale industries has been growing.

According to the Annual Report of the IDBI for June 30, 1977, the financial assistance sanctioned and disbursed by the 18 SFCs during 1976-77 stood at Rs. 168.3 crores and Rs. 105.3 crores respectively. This marked an increase of 3.3 per cent in regard to the former and 5.2 per cent in that of the latter. The aggregate financial assistance sanctioned and disbursed by these corporations since their inception up to the end of March 1977 amounted to Rs. 927.7 crores and Rs. 602.7 crores respectively. Loans sanctioned have recorded a significant increase. Almost 20 per cent of the assistance was related to new enterprises and about 20 per cent for the purpose of expansion or diversification of existing lines of activity. Industry-wise classifications of the loan assistance sanctioned since inception suggest that food manufacturing, textiles, chemicals and chemical products, iron and steel, metal products, machinery and transport equipment accounted for the lion's share

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of the assistance sanctioned. A typical feature noticed during the last couple of years is the decline in the rate of growth in sanctions of loan assistance by the corporations. Thus, there was a fall from 37.5 to 14.9 per cent in 1975-76 and further to 3.3 per cent in 1976-77. While this decline is generally attributed to the uncertain investment climate, power cuts and power shedding in different parts of the country as also recessionary conditions prevailing in the industrial sector as a whole, a more plausible reason is that doubts have been raised about the efficacy of utilization of funds made available by the SFCs to the enterprises for different purposes in view.

Research studies have suggested that small-scale units have had untold problems coming in the way of efficient deployment of these funds while rising defaults have become a general feature in the case of most of the SFCs. This has also created an impression that there exists a weakness in the scheme of assistance to different classes of enterprises in so far as the assessment of techno-economic and techno-managerial liability of projects has left a great deal to be desired. Continuous surveys of production, market and profit potential require to be organized for helping entrepreneurs in different ways. Efforts in this direction have not been of the measure required though not entirely absent. The lion's share of assistance extended by the SFCs has gone to small-scale industries and entrepreneurs coupled with the assistance extended to units located in specified backward areas. The assistance to the technician-entrepreneur has filled a void felt earlier. Loan assistance of Rs. 88.1 crores was sanctioned by the SFCs in respect of 4098 units located in the specific backward areas during 1976-77 as against Rs. 74.6 crores to 3935 units in 1975-76. This has meant an increase in the share of assistance to units in backward areas from 45.8 per cent in 1975-76 to 52.4 per cent in 1976-77. In compliance with the special schemes for assisting technician-entrepreneurs under liberalized terms, 524 technician-entrepreneurs were sanctioned loans amounting to Rs. 1,096 crores during 1976-77 compared to 511 entrepreneurs and a loan amount of Rs. 8.2 crores in 1975-76.

The SFCs forward term-loans for acquisition of fixed assets. The terms and conditions such as margin, rate of interest, repayment schedule vary from state to state and again from area to area and industry to industry. The loans given by the SFCs are

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usually for a period up to 10 to 12 years or some more for special cases and are secured by a first charge on the fixed assets of the borrowers. The margin kept is normally 25 to 50 per cent which is relaxed in various ways. The effective lending rates also vary from 8.5 per cent to 14.5 per cent, depending upon various factors. In some cases it is relaxed further. Since entrepreneurs from developed States generally predominate in number on the industrial scene, let us look at the package of incentives, financial or otherwise, which these States have to offer.

## GUJARAT

The Gujarat State Financial Corporation (GSFC) and the Gujarat Industrial Investment Corporation (GIIC) offer long-term loans up to 75 per cent of the fixed assets, underwrite capital issues and subscribe to share capital. The GSFC advances loans up to Rs. 30 lakhs at 9½ per cent. The Gujarat Small Industries Corporation (GSIC) offers concessions to small-scale units, machinery on a hire-purchase basis on easy instalments of a maximum value of Rs. 2.50 lakhs. The GSFC offers loans up to Rs. 15,000 at a subsidised interest rate of 6 per cent with reduced security margin of 20 per cent to small units. Loans above Rs. 15,000 and up to Rs. 75,000 are granted at 5 per cent interest. To the technician-entrepreneur, the GIDC gives developed land or sheds with no advance payment for 3 years. The Directorate of Industries grants loans up to Rs. 10,000 at 3 per cent to unemployed engineers and technicians.

The interest-free sales tax loans are granted up to a ceiling of 20 per cent of capital outlay. This is applicable to new units for 5 years.

New industries are exempted from payment of octroi duty for the first five years.

The rate of stamp duty is reduced on documents of mortgage without possession in respect of loans and advances executed by industrial units in favour of development agencies functioning on behalf of the Government or banks or other financial institutions in the public sector.

### *Land*

The GIDC (Gujarat Industrial and Development Corporation)

develops pre-selected industrially potential land and provides it with complete infrastructural facilities. The GIDC offers open plots and 7 different types of industrial sheds varying from 69.7 sq. metres to 761.8 sq. metres built-up area. Industrial plots are allotted on a 99 years' lease with option for renewal on easy payment terms.

*For Plots and Sheds Located in Backward Districts*

12½ per cent of the total cost of sheds and plots will be paid at the time of allotment. During the next two years, 6¼ per cent of the total cost of sheds and plots will be paid in annual instalments.

Seventy-five per cent of the remaining amount of cost of sheds and plots will be paid during ten years in forty equal quarterly instalments with interest at the rate of 12½ per cent.

*Power Tariff*

A new industry using power supply over 33 KV and above gets some concessions. New industries are exempted from electricity duty for 5 years in general and 10 years if they generate power themselves.

*Financial Assistance*

The Gujarat State Financial Corporation grants loans to small-scale units up to Rs. 15,000 on a subsidised rate of 6 per cent interest and with a 20 per cent margin. In general, it grants long-term loans on usual terms. The GSFC and the GIIC offer long-term loans up to 75 per cent of the fixed assets, at the rate of only 9½ per cent interest. The GSFC also grants foreign currency loans available from International Development Agency.

*Supply of Raw Materials*

The GSIC arranges and maintains proper supply of all basic raw materials.

## Haryana

The Haryana Financial Corporation (HFC) offers loans from Rs. 20,000 to Rs. 30 lakhs to limited companies and registered co-operatives and up to Rs. 15 lakhs to other enterprises. The

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rate of interest on loans of up to Rs. 5 lakhs to small units is $8\frac{1}{2}$ per cent and $9\frac{3}{4}$ per cent to medium- and large-scale units; loans are payable in 10 years. As a concession to small-scale units, it builds sheds provided on a nominal rent. Loans of Rs. 25,000 are advanced to small-scale units at a rate of $8\frac{1}{2}$ per cent.

As concessions to backward areas new units with an investment of Rs. 1 crore are exempt from electricity duty for a period of 7 years. The security margin is 40 per cent to 30 per cent to large-scale units and 25 per cent to 20 per cent to small-scale units. The rate of interest is 7 per cent or $8\frac{1}{2}$ per cent or $9\frac{3}{4}$ per cent. The repayment period is 15 years.

*Sales Tax*

Inter-state sales tax payable by new units would be treated as interest-free loan and is available from the date of production in the following manner:

(1) Faridabad-Ballagarh belt SSIs 40 per cent for investment in machinery upto 7.5 lakhs for 3 years.
(2) Backward areas units with investment in plant and machinery up to Rs. 1 crore for 5 years.
(3) Developing areas with investment up to Rs. 50 lakhs in machinery and equipment for 5 years.

New units are exempted from property tax for 5 years.

All industrial units outside the municipal limits at the time of their establishment would be exempted from octroi duties for 5 years.

*Land*

Plots in developed land at growth centres with all infrastructure facilities are allotted to entrepreneurs on the basis of 10 years of easy instalments.

In addition, HSIDC has set up industrial estates at Murthal, Gurgaon and Yamuna Nagar. Plots are allotted on a no-profit, no-loss basis. 20 per cent of the cost is demanded with the application and the remaining 80 per cent is payable in equal annual instalments.

Electricity duty exemption is in the similar pattern of tax relief.

*Finance*

The terms and conditions of the HFC's loan schemes have been discussed earlier.

*Capital Participation and Underwriting*

The HSIDC underwrites or participates in the preference shares of public limited companies on a selective basis.

*Concessional Finance*

In addition to the Central subsidy of 15 per cent on fixed capital in backward districts, the State government has declared some districts as backward for concessional finance and enhanced allocation of raw materials is available.

*Feasibility Studies*

The cost of 50 per cent of preparation of feasibility reports is provided by the government, which is converted into the share of government in the venture.

*Marketing Assistance*

The Haryana State Small Industries and Export Corporation helps in marketing and export under the government purchase programme.

## KARNATAKA

There are two main institutions here offering loans, the Karnataka State Industrial Investment and Development Corporation (KSIIDC) and the Karnataka State Financial Corporation (KSFC). The KSIIDC underwrites and subscribes to new share capital issues. The KSFC provides financial assistance to small-scale units. The rate of interest charged for small-scale units is 9½ per cent for medium and 10½ per cent for large units and 9½ per cent for technicians. The KSFC also provides rupee and foreign currency loans under the IDA line of credit repayable within 20 years. Small-scale units situated in backward districts are eligible for loans at an interest of 8½ per cent. A 15 per cent to 20 per cent price preference is given to the products of small-scale units. As concessions to backward districts, the Karnataka Industrial Area Development Board (KIADB) makes land avail-

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able with down payment of only 10 per cent instead of the normal 25 per cent of the value of land. The State government gives a cash refund of sales tax paid by new units on raw materials and capital goods for a period of 5 years. The KSFC charges only 10 per cent and a rebate of ½ per cent is granted on loan.

The Government of Karnataka allows exemption in return of sales tax paid as interest-free loan to the industries with more than Rs. 10 lakhs investment in plant and machinery.

Octroi duty relief is allowed for certain products.

The KIADB offers built-up sheds in selected growth centres. Besides this KSFC offers financial assistance to entrepreneurs interested in developing new industrial estates in areas with a population of above 50,000.

Full exemption of electricity tax is given for all new investments for the first five years.

Financial support is extended to fresh industrial investments in the State in one or more of the following forms:

(1) Medium-term loan towards capital cost of the project;
(2) Interest-free unsecured loan based principally on sales tax by way of:
    (i) Development loan (which can be reckoned as equity) towards the creation of new assets;
    (ii) Working capital loan;
(3) Guarantee against deferred payment on machinery on hire-purchase;
(4) Underwriting of public issues;
(5) Subscription towards preference or equity share capital;
(6) Subsidy against investment in fixed assets.

The margin is 30 per cent and 40 per cent.

No water royalty is charged for new units taking water from natural sources. Seventy-five per cent of the cost of a feasibility study is advanced by the State government as long-term loan, recovered within ten years and after six years.

Raw materials, particularly scarce, are supplied properly by the KSIC.

10 per cent price preference in State purchase are given to local small-scale industries' products for the first 5 years.

## MAHARASHTRA

Maharashtra is one of the most industrially developed states, but until recently has concentrated largely in the Bombay-Thane-Panvel-Khopoli and the Chinchwad-Pune areas. As many as 13 of the 26 districts in the State have been declared as backward by the Planning Commission. There are three major financial institutions in the State—the Maharashtra State Industrial Development Corporation (MSIDC), the Maharashtra State Financial Corporation (MSFC) and the State Industrial and Investment Corporation of Maharashtra (SICOM). The MSFC provides financial assistance to projects whose paid-up capital does not exceed Rs. 100 lakhs. The Maharashtra Small-Scale Industrial Development Corporation (MSSIDC) offers machinery on a hire-purchase basis and arranges other facilities such as procurement of imported and indigenous raw materials. Under the State Aid to Industries Act, loans to cottage and small-scale units at concessional rates of interest are provided by zilla parishads (up to Rs. 3,000) as also the commercial banks such as the Bank of Maharashtra, the Sangli Bank (between Rs. 3,000 and Rs. 10,000).

### *Region-wise Development of the State's Corporations*

1. The Western Maharashtra Industrial Development Corporation covering Pune, Satara, Sholapur, Sangli, Kolhapur, Dhulia, Jalgaon, Nasik and Nagar.
2. The Konkan Development Corporation covering Thane, Kulaba and Ratnagiri districts.
3. The Vidarbha Industrial Development Corporation covering Nagpur, Wardha, Amraoti, Akola, Chandrapur and Bhandara.
4. The Marathwada Development Corporation covering Aurangabad, Osmanabad, Bhir, Nanded and Parbhani.

For incentives, the entire Maharashtra State is classified into three groups, namely, A, B and C. All the developed areas of the State are in the group A, and there is a minimum or no incentive for this group. The developing areas in Groups B and C are as per grading. Maximum incentives are available in areas under group C.

Sales tax loan repayable after 12 years in six equal annual instalments, is available at the rate of Rs. 1,200 per jobs created

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per year, maximum at 4 per cent of the fixed assets of new units. The overall ceiling of such loans is 8 per cent of fixed assets or sales tax paid whichever is lower with a maximum of Rs. 40 lakhs for group B areas and Rs. 50 lakhs for group C areas.

For small-scale industries this loan is for 6 to 8 years from the date of production, which for medium and large-scale units is for 5 to 6 years only.

Developed plots are available at Akola, Aurangabad, Ambernath, Bhir, Badlapur, Chiplun, Dhulia, Dombivli, Islampur, Jalgaon, Jalna, Kolhapur, Mira, Mazol, Nagpur, Nanded, Nasik, Pimpri, Roha, Sangli-Miraj, Satara-Thane, Tarapur, Taloja and trans-Thane creek industrial areas.

In the Bombay-Pune region and in Nasik, plots are allotted on lease for 99 years, on a variable premium. The subsequent nominal rent is Rs. 1 per year per plot, irrespective of the area of plots.

In underdeveloped areas plots are available for 95 years' lease, with a security deposit of Rs. 500 per acre.

Rent is free for 2 years, half for 3 years, and full afterwards.

Octroi paid on capital equipment, raw materials and building materials are refundable to the extent of 1½ per cent of the value of capital equipment and building materials.

A rebate in tariff, payable by SICOM, is available for units having a minimum 200 KW power consumption per month. Tariff payable is on par with Tata's tariff in Bombay.

Capital incentives as interest-free loans for 12 to 18 years up to 15 per cent of fixed capital for a maximum Rs. 15 lakhs are available in selected growth centres other than areas under central subsidy.

*Feasibility Study*

Seventy-five per cent of the cost of a feasibility study is met by SICOM which is treated as unsecured loan for 5 years, if implemented. In case of non-implementation it becomes SICOM's asset. (Since SICOM and MSFC are two model financial institutions a separate chapter [Chapter 8] is devoted to them.)

## PUNJAB

There are two main institutions offering financial assistance to

industries—the Punjab Financial Corporation (PFC) and the Punjab State Industrial Development Corporation (PSIDC). Loans up to Rs. 10,000 are sanctioned by the industrial department at an interest rate of 8 per cent. All loans above Rs. 10,000 are advanced by the PFC. The maximum limit is Rs. 30 lakhs for public limited companies and co-operatives. For other enterprises this limit is Rs. 15 lakhs.

The Punjab State Industrial Development Corporation participates in the share capital up to 30 per cent of the paid-up capital. As a concession to small-scale units a 15 per cent price preference is allowed to the products of small-scale units. The PFC provides loans to small-scale units at a rate of interest of 6½ per cent above the bank rate with a minimum of 15½ per cent with a rebate of 3 per cent for prompt payment.

While as assistance and financial help to technicians and entrepreneurs all concessions available to units in the selected focal points of the state are applicable to technically trained persons, concession to backward districts' small-scale units are given at an interest rate of 6½ per cent above the bank rate (minimum 15½ per cent with a rebate of 3 per cent on prompt payment).

*Sales Tax Concession*

Interest-free sales tax loan for new units is given in 5 annual instalments up to 4 per cent and 5 per cent of value of goods sold, depending on location of unit, maximum Rs. 5 lakhs or equal to present investment of a minimum of Rs. 1 lakh.

*Octroi*

New and expanding units are exempted from octroi for 5 years except in new focal points and industrial units to be developed by Government.

New and expanding units at the existing focal point, future focal points, border and all backward districts are exempted from electricity duty for 5 years.

There is a special concession in electricity tariff for power-based industries to the extent of 25 per cent for a period of 5 years.

*Financial Assistance*

Loans up to Rs. 10,000 is available from the Industries Department

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at the interest rate of 8 per cent per annum. There is a 15 per cent central subsidy available in Hoshiarpur, Bhatinda and Sangrur districts. Also 20 per cent State subsidy for generating sets are available in all over the State.

Fifty per cent of the cost of feasibility report is subsidized by the State Government.

For providing technical and research facilities, there are 11 existing, and 5 to be set up, quality marking centres, and 12 existing and 10 to be set up, Industrial Development Centres.

A marketing cell has been set up in the Directorate of Industries, primarily to maintain liaison with Government Purchasing Agencies all over the country and to disseminate the necessary marketing and economic intelligence to the industrial units.

## Tamil Nadu

The Tamil Nadu Industries Investment Corporation (TIIC), the State Industrial Promotion Corporation of Tamil Nadu (SIPCOT) and the Tamil Nadu Industrial Development Corporation (TIDCO) are the principal local institutions providing financial assistance to industries. SIPCOT and TIDCO are engaged in the promotion of industries in the State and to supplement the activities of the TIIC which is the oldest one providing both loan and equity capital.

As concessions to small-scale units, readymade sheds are made available on a hire-purchase basis in industrial estates. The TIIC offers a concessional rate of interest on loans with a security margin of only 25 per cent. Under the State Aid to Industries Act, loans up to Rs. 2 lakhs are granted at a concessional rate of interest ranging between 6¾ per cent to 7¾ per cent. For concessions to backward districts new units in any of the notified 40 backward districts are eligible for a 15 per cent reduction in power tariff. New units are permitted to draw water from public sources on payment of a nominal amount of Rs. 200.

There is available long-term interest-free, sales-tax loan in backward districts.

Octroi has been totally abolished in the State.

### *Power*

The electricity tariff, payable by new industrial units connected

to the high tension power grid, is $66\frac{2}{3}$ per cent for the first 3 years, 80 per cent for the fourth, 90 per cent for the fifth and full from the sixth year onwards.

## West Bengal

Industrial development in West Bengal is concentrated mainly in the regions of Calcutta, Howrah and the 24 Parganas. The Planning Commission has declared 13 districts backward, out of these 3 are eligible for a Central Subsidy of 15 per cent. The Government or financing institutions like the West Bengal Industrial Development Corporation (WBIDC) or the West Bengal Financial Corporation (WBFC) sanction term loans up to 75 per cent of the capital cost. The WBFC grants loans at 12 per cent interest with the repayment period spread over 10 to 12 years. The WBIDC charges 8 per cent to 10 per cent interest on loans.

Existing units paying sales tax of Rs. 3 lakhs or more in developed areas or Rs. 1 lakh or more in developing areas are eligible to get return of sales tax for 3 years in the form of unsecured long-term interest-free loans recoverable in 3 annual instalments after 18 years, subject to a maximum 25 per cent of fixed capital. This incentive is extended for 6 years, and maximum 8 per cent of fixed assets for new units, other clauses being the same.

Octroi paid for capital equipment and raw materials by new or expanding units are returned by WBIDC or WBSIC as grant. This is for the initial 5 years.

Khas or acquired land are allotted to entrepreneurs on 8 years long-term lease. It is rent-free for 2 years, half rent for the next 3 years and full rent for the sixth year onwards.

The Government subsidizes 30 per cent of power tariff for new or expansion units in backward areas, having connected a load of 200 KVA or above.

### *Financial Assistance*

Term loans up to 75 per cent of capital assets with a maximum of Rs. 20 lakhs are granted by WBFC. Other assistance provided are underwriting of shares and guarantee for working capital.

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Chapter 7

# YOUR OPTIONS, OUR FUNDS

IN THE LAST chapter you have seen a certain pattern in the incentives offered by the industrially advanced States. The lesser developed States, in their anxiety to catch up with the more advanced ones, offer a more attractive package of incentives with a view to lure entrepreneurs away from other States like Gujarat or Maharashtra.

## ANDHRA PRADESH

The Andhra Pradesh Financial Corporation (APFC) is the main agency in the State offering financial assistance. Loans are granted for a period of 10 to 12 years carrying an interest of 4 per cent above the bank rate, with a minimum of 11 per cent. The Andhra Pradesh Industrial Development Corporation (APIDC) offers direct participation in share capital as well as underwriting assistance. By way of assistance to technicians, the APSFC gives loans up to 90 per cent of the project cost with a limit of Rs. 1 lakh and extended up to Rs. 5 lakhs for experienced graduates. It also provides foreign exchange loans under the IDA line of credit refinanced by the IDBI to small- and medium-scale units with varying margins from 10 to 50 per cent of net value of assets. For medium-scale units with total project cost not exceeding Rs. 30 lakhs it provides loan up to two-thirds on the cost of machinery of which $16\frac{2}{3}$ per cent would be treated as deferred loan up to 50 per cent of the cost of land and buildings. As concessions to small-scale units, the APSFC provides loans to small units at a concessional rate of $10\frac{1}{2}$ per cent and the state government provides a $12\frac{1}{2}$ per cent subsidy on power consumed by units.

This is applicable to units situated outside the municipal limits of Hyderabad, Secunderabad, Vijayawada and Visakhapatnam. The amount of loan is equal to the tax paid by them — a maximum of 10 per cent of the fixed capital cost. This is for a maximum

of 5 years from the date of regular production of raw materials, components and finished goods. Octroi duty has been abolished in the entire state.

*Investment Subsidy*

(1) an investment subsidy at 10 per cent of fixed capital (maximum Rs. 10 lakhs is available in all backward areas excluding those covered by the central subsidy scheme);
(2) subsidy at 20 per cent of fixed capital and a maximum of Rs. 15 lakhs is available in tribal areas.

## ASSAM

In Assam there are two main local financial institutions. The Assam Financial Corporation (AFC) offers loans at an interest of 12 per cent. It meets the block capital requirements of industrial concerns established/to be established within the operational jurisdiction for setting up of new industrial projects, for expansion of existing ones, for diversification, as also for the renovation and modernization of plant and equipment. The Assam Industrial Development Association, in addition to providing assistance in the form of share capital, also promotes new projects. The State Government may participate in share capital. The Assam Government allows certain concessions on sales tax to purchase local products, local raw materials etc. Developed lands with all infrastructure facilities are provided by the government. Factory sheds at subsidised rates are set up in industrial estates and allotted to entrepreneurs on a rental basis or on hire purchase. Economic rent is subsidised to the extent of up to 50 per cent for periods ranging from 3 to 10 years, depending on the location of industrial estates. Power-intensive units with connected load up to 20 H.P. are entitled to subsidy not exceeding Re. 0.09 per unit, except for lighting in offices and residences.

*Feasibility*

The State government provides feasibility reports with the condition that the projects will be implemented within a time limit or surrendered earlier in case of inability to do so. The State government has set up a new raw material cell to look after the proper supply and distribution of raw materials to industries.

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The State Directorate of Industries provides assistance and guarantee to small entrepreneurs in procurement of machinery on a hire purchase basis through the National Small Industries Corporation or through the Assam Small Industries Development Corporation.

### BIHAR

In Bihar there are two agencies—the Bihar State Financial Corporation (BSFC) and the Bihar Industrial Development Corporation (BIDC). The BSFC offers financial assistance at the rate of 10¼ per cent. Concessions to small-scale industries include sheds made available at 50 per cent of the economic rate for five years with the hire-purchase scheme. A rebate of 2 per cent on interest is given on timely payment of the instalments. Under the State Aid to Industries Act, loans are made available to small-scale units, up to Rs. 50,000 at 3 per cent and loans above Rs. 50,000 at 6 per cent. The BSFC advances loans to small-scale units at 10 per cent.

As technical entrepreneur's assistance no rent is charged for 2 years for the shed, 50 per cent of the rent is charged for the next 3 years and full rent from the sixth year.

*Relief from Sales Tax*

The Government of Bihar provides new industrial units:

(a) exemption from sales tax on all purchases of raw materials for a period of 10 years from the date the unit goes into production and
(b) exemption from multi-point sales tax is also permitted at the first stage of sales for the manufacturer for a period of 10 years from the date the unit goes into production. The BSFC offers loans at the rate of 8½ per cent to small units and 10 per cent and 10½ per cent to medium and large units respectively to be set up in notified backward areas. The period of repayment is 15 years. The margin of security is reduced to 20 per cent in case of small units and 30 per cent in case of large units and for technicians it is only 5 per cent.

Fully developed land with all infrastructure facilities are allotted

to entrepreneurs at industrial complexes at (i) Patna; (ii) Ranchi; (iii) Adityapur; (iv) Patratu; (v) Bokaro; (vi) Barauni and other industrial complexes to be developed. These factory plots in each such developed area are settled with entrepreneurs on long-term lease and only a token rent is realized from them annually. The full cost of acquisition and developed land is recovered from the parties in five annual instalments. In backward districts, this amount is recovered in 10 equal instalments. The Government land outside the municipal areas is allotted at the market rate to entrepreneurs for setting up industries.

For a connected load of 132 KVA and above 5 per cent rebate is allowed and units consuming electricity on 3.3 KV, 6.6 KV or 66 KV are allowed a rebate of 7 per cent. Rebate of 5 per cent or 7 per cent is applicable on tariff value. Electricity duty surcharge or meter rent is not included in calculating the rebate. The state financing institutions are designed to help in securing additional finance for industries from national financing agencies. The Government also considers underwriting of shares, equity, financing and grant of loan and guarantee of loans to be raised by industries.

The capital subsidy of 15 per cent is available in 15 backward districts out of the 24 backward districts. The capital subsidy for others in districts is 10 per cent.

*Feasibility Study*

Government usually meets 50 per cent of the cost of preparing the project report. After the project report is accepted for implementation, its contribution is converted as Government's share in the project.

*Some Special Incentives*

(a) An Industrial Assistance Centre has been established to provide technical, financial and administrative assistance to prospective entrepreneurs;
(b) The Industrial Area Development Authority at Patna, Ranchi, Bokaro, Adityapur, Jamshedpur, Muzaffarpur and Darbhanga have been established to provide assistance to small-scale industries;
(c) Quality Marking Scheme has been also announced by the State Government;

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(d) 37 industrial estates and raw material depots have been established for helping entrepreneurs;

(e) for technical entrepreneurs space in industrial areas is provided on a priority basis. No rent is charged for the first 2 years. 50 per cent of the rent is charged for the next three years and full rent realized from the sixth year onwards.

### Himachal Pradesh

The Himachal Pradesh Financial Corporation (HPFC) and the Himachal Pradesh Mineral and Industrial Development Corporation (HPMIDC) offer financial assistance on suitable terms to industries in the state and the rate of interest charged is 12½ per cent. For backward districts it is 7.5 per cent. The HPMIDC underwrites the share capital up to 25 per cent of the paid-up capital.

### Jammu and Kashmir

The Jammu and Kashmir State Financial Corporation (JKSFC) and the Jammu and Kashmir State Industrial Development Corporation (JKSIDC) offer suitable financial assistance to the industries in the State. The rate of interest charged by these institutions range from 10 per cent to 12½ per cent. The JKSIDC provides finance for setting up projects in the joint sector and for purchase of machinery on a hire-purchase basis. In the case of hire-purchase loans, the entrepreneur has to pay only 5 per cent of the cost of machinery and the balance is recovered in half-yearly instalments. After 18 months, an interest is charged at the rate of 10 per cent.

Under the Industries Act, the Government gives loans to technocrats and unemployed engineers up to Rs. 20,000 against personal security with 2 sureties. The JKSFC sanctions loans to new units at a concessional rate of 7 per cent. The existing units are refunded the CST paid on raw material for 3 years and new units for 5 years.

The octroi duty paid by the registered SSIs in rural areas is underwritten to the extent of 50 per cent. This concession is tenable for 5 years after production.

Toll tax on raw material and finished goods is refundable for 3 years for existing units and 5 years for new units.

(a) Land will be leased out for a period of 20 years on the first instance with a provision for two renewals of the lease period of equal duration.
(b) 50 per cent of the land cost is lent as long-term loan.

Interest charged by SFC for loans for shed construction are subsidised up to 3½ per cent by the State Directorate of Industries.

*Electricity*

Loans are advanced for generating sets. 75 per cent of this loan is recovered in half-yearly instalments. Power generated is exempted from electricity duty for 5 years.

The J & K IDC will make available to entrepreneurs, machinery on hire-purchase basis on the following terms :

(a) 5 per cent is premium and the rest is payable in 11 instalments.
(b) first instalment starts after 18 months.
(c) interest rate is 10 per cent.
(d) maximum limit is Rs. 1 lakh.

*Raw Materials*

Basic raw materials like cement, steel and iron are issued on the recommendations of the Director of Industries.

*Price Preference*

15 per cent price preference is given to the small-scale industries' products of the State in government's purchase.

## KERALA

The Kerala State Industrial Development Corporation (KSIDC) assists large and medium-scale units by participating or underwriting share capital and providing long-term credit facilities. The Kerala Financial Corporation (KFC) provides financial assistance on suitable terms. New units in rural areas are given loans by the State Government for land, building and machinery at a low rate of 3 per cent.

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The concession is as interest-free sales-tax loan which is calculated on the basis of the amount of sales tax assessed on the annual turnover of the units provided an equal amount is invested by them on fixed assets excluding land, recovery commencing from the sixth year. This means the amount of sales tax allowed to be refunded is equivalent to the investment undertaken. Octroi duty is not payable by industrial units.

*Land*

Land or developed plots are available on lease or on a hire-purchase basis, 20 per cent initially and the rest payable in 10 yearly instalments.

(a) The KFC sanctions loans under property security up to Rs. 1 lakh, but a loan of Rs. 7,500 from agency fund is obtainable at 3½ per cent interest rate up to Rs. 50,000 and 5½ per cent up to Rs. 1 lakh.

(b) Commercial banks sanction loans under CGS.

(c) Co-operative societies are also given loans, at a low rate of interest of 2½ per cent or 3 per cent and receive grant for managerial and technical assistance.

## Madhya Pradesh

For the purpose of concessions, 45 districts of the State have been selected. The Madhya Pradesh Audyogik Vikas Nigam Limited (MPAVN) and the Madhya Pradesh Financial Corporation (MPFC) underwrites the share issue of new, large and medium-scale units.

The State Government subsidizes the interest rate up to 2 per cent on loans raised by small-scale units in backward districts from the MPFC or nationalized banks for a period of 3 years. Under the State Aid to Industries Act, loans are granted to unemployed engineers up to Rs. 15,000 in rural areas and Rs. 10,000 in other areas. The MPFC grants medium and long-term loans ranging from Rs. 10,000 to Rs. 30 lakhs, keeping a security margin of 25 per cent (20 per cent in backward districts). Unemployed technical graduates are given a further 5 per cent concession in the margin on merit.

The MPAVN renders all kinds of technical, administrative and financial help to new large and medium-scale units from start to finish. It undertakes preparation of feasibility reports, helps in processing applications for licenses and obtaining capital goods and underwrites share capital. The MPAVN provides financial assistance up to 35 per cent of the capital cost at 9 per cent with a rebate of $\frac{1}{2}$ per cent for prompt payment against the security margin of 40 per cent (25 per cent in backward areas).

New and small-scale units registered before 1974 are granted a power subsidy. A 10 per cent price preference is given to the products of small-scale units.

Madhya Pradesh has three categories of districts for development and according to that, assistance is offered to new units. Units in advanced districts with an investment up to Rs. 50 lakhs are entitled to a 50 per cent subsidy of sales tax paid for the initial 3 years. Other units having an investment from Rs. 20 lakhs to Rs. 5 crores are provided with sales-tax loan as 15 years interest-free loan. The limit of subsidy loan is a maximum of 8 per cent of the capital investment. Similar units in areas of group A, group B and group C of backward districts are entitled to subsidies respectively 75 per cent, 100 per cent and 100 per cent for 5 years maximum at 8 per cent, 12 per cent and 20 per cent respectively of capital investment.

The existing units desirous of establishing new units get 15 years interest-free sales-tax loans equal to 50 per cent in advanced districts, 75 per cent in category A districts and 100 per cent in B and C type districts of sales tax paid during 3 years, the limit being 24 per cent of capital investment in advanced and 36 per cent in backward districts. For substantial expansion in advanced and backward districts 50 per cent and 75 per cent of extra sales tax paid will be subsidised, or lent for 15 years.

### *Octroi*

New units in any area are exempted from octroi for 5 years on plant, machinery building materials and raw materials from the date of getting industrial licence.

### *Land*

Land at low initial premium and easy annual ground rent is made available.

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*MPFC*

The MPFC grants medium-term loans from Rs. 10,000 up to Rs. 30 lakhs with a margin of 20 per cent to 40 per cent. The rate of interest ranges from 9 to 13 per cent.

*Industrial Housing*

The State Housing Board has already developed housing colonies at various districts. Industrial units are granted loans of up to 25 per cent of construction costs by the State Housing Board, at the rate of interest of 9 per cent repayable in 15 to 25 annual instalments.

New traditional industries in backward districts get power subsidy.

## MANIPUR

The State Government grants loans to industrial units on recommendation of the Industrial Advisory Board, Manipur. Under the Small Scale Industries Loan Scheme loans are granted from Rs. 2,000 onwards at 5 per cent. Loans are also granted by the State Government under Rural Industries Project Scheme at a concessional rate ($2\frac{1}{2}$ per cent to 3 per cent).

## MEGHALAYA

Besides land, power, water facilities, a price preference of 15 per cent is given. Sales tax and loan facilities are available. The contribution of government for feasibility studies is up to 75 per cent of the total cost of the study. The government provides financial assistance in the form of underwriting participation. 50 per cent building cost for factories is provided by the government. The loan is repayable in 10 years.

## NAGALAND

Loans up to Rs. 20,000 are granted by the Department of Industries at 6 per cent interest payable in 5 annual instalments with an initial moratorium of one year. Loans exceeding Rs. 20,000 are granted by the Assam Financial Corporation. Grants-in-aid ranging from Rs. 200 to Rs. 2,000 are given by the Government to cottage industries.

## ORISSA

The Orissa State Financial Corporation (OSFC), the Industrial Development Corporation of Orissa Ltd. (IDCOL), the Orissa Small Scale Industries Corporation (OSSIC) and Industrial Promotion & Investment Corporation of Orissa Ltd. (IPICOL) provide financial assistance in different forms to industries. They underwrite shares, provide security margins and seed capital and enable entrepreneurs to raise finance from commercial banks. Power is given at a concessional rate of 12½ per cent less. The OSFC offers loans to small-scale units up to Rs. 25,000 at a concessional rate of 10 per cent repayable in 12 years with security margin to 30 per cent of fixed assets. For starting a small-scale industry the State Government gives loans up to Rs. 20,000 at a reduced rate of interest of 4½ per cent against security. The OSFC gives loans up to 85 per cent of the project cost at concessional terms to technician-entrepreneurs. For backward areas the rate of interest is 11½ per cent and reduced security margin 15 per cent and repayment period 15 years.

The Government exempts new units from sales tax and purchase tax for the initial 5 years. Octroi is also not payable for machinery and raw materials for the initial 5 years. Land at 50 per cent of the market rate in general and 33½ per cent in backward areas are provided by the State Government. Developed sites are available in the vicinity of Rourkela, Kansbahal-Rajgangpur, Paradeep, Talchar and Jaipur Road. Sheds in industrial estates like Rourkela, Cuttack and Jharsuguda are provided on lease. Units with investments up to Rs. 25 lakhs will get a concession of 12.5 per cent on the usual tariff rates for the initial 5 years. The State Government provides financial assistance to deserving industries in the form of share capital, loans, government guarantees etc. Besides OSFC and IDCOL also forward loans.

*Water*

Water is supplied by the PHED on a no-profit no-loss basis.

*Housing*

The subsidized housing scheme is in operation in the State for the benefit of labourers.

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*Feasibility Report*

50 per cent of the cost of the feasibility report prepared by the Government approved agencies is contributed by the State Government. On non-implementation it is to be surrendered to the Government and if implemented, it is Government's share in capital equity.

*Price Preference*

15 per cent price preference is given to small-scale industries' products in government's purchase. In addition to this the Directorate assists in marketing of products by maintaining a liaison with various agencies.

### Pondicherry

The Tamil Nadu Industrial Investment Corporation (TIIC) has extended its operations to Pondicherry. Under the government purchase programme, a price preference ranging between 7 per cent and 15 per cent is accorded to small-scale units. A concessional rate of stamp duty is allowed on mortgage deeds by small-scale units. The central sales tax is reduced by 50 per cent for small-scale units.

### Rajasthan

The Rajasthan State Industrial and Mineral Development Corporation (RSIMDC) promotes and assists by participating in share capital. The Rajasthan Finance Corporation (RFC) grants long-term loans repayable in 10 to 12 years for fixed assets and working capital up to a maximum of Rs. 1 lakh to small units.

As concession to small-scale units, the State Government has built industrial estates where infrastructure facilities are provided to small-scale units. A 25 per cent rebate in electricity is admissible to new small-scale units. A price preference of 15 per cent to products of the small-scale sector is given.

The RFC advances loans to technicians up to Rs. 2 lakhs without any margin of security which is repayable in 10 years. The RSIMDC assists 2 or more unemployed engineers in jointly setting up a project by purchase of debentures up to Rs. 75,000. It also provides managerial, technical and commercial help to such projects.

There is no sales tax for machinery, for textiles, ceramics, glass, cement, engineering, sugar, metal-based industries and mineral-based industries. A nominal rate of 1 per cent sales tax is leviable on raw materials sold to industries within Rajasthan.

*Octroi Relief*

Plant and machinery purchased by the industrial units, and raw materials, are exempted from octroi.

*Land*

The RSIMDC allots land on lease for 99 years charging the development expenses and the annual economic rent at the rate of Rs. 2.00 per sq. metre to Rs. 7.50 per sq. metre depending upon location.

*Financial Assistance*

*State Aid to Industries Act:* Under this scheme loans up to Rs. 15,000 are obtainable for 10 years repayable in 7 equal annual instalments after 2 years, at the rate of interest of 6 per cent for punctual payment and 12 per cent for irregular payment. The Rajasthan Financial Corporation grants loans on terms. Under the soft loan scheme the RFC grants loans from Rs. 10,000 up to Rs. 1,50,000 for acquiring fixed assets up to 75 per cent with effective rate of interest of 8 per cent in privileged areas and industries.

For qualified engineers, and technically feasible projects, 100 per cent loan up to Rs. 2 lakhs is granted. Pipe water supply in almost all the towns and cities is ensured and provision exists for lifting water from irrigation projects at concessional rates. Scarce and imported raw materials are distributed through raw material depots. 15 per cent price preference is allowed for the SSI products over MSI and LSI products in Government purchase. The RSIMDC constructs factory sheds in its own industrial area as per customers' drawing, costing up to Rs. 1 lakh. 25 per cent (12½ per cent for engineers) of cost is payable within 10 days of acceptance of request and the balance in 8 equal annual instalments with 9½ per cent interest or as decided from time to time.

Testing facilities at normal rates are available in the Chemical Laboratory at Jaipur, the Engineering College at Jaipur and Jodhpur, and at the Central Electronic Research Institute, Pilani.

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TRIPURA

Financial assistance is supplied in the form of loan or participation in equity capital. Loans to small-scale units under the State Aid to Industries Act are provided at subsidised interest. The agricultural sector, handloom and handicrafts are provided loans. Repayments have to be made in easy instalments.

UTTAR PRADESH

The Directorate of Industries provides loans from Rs. 5,000 to Rs. 1 lakh covering 75 per cent to 90 per cent of the cost of fixed assets at an interest of 8 per cent. The Uttar Pradesh Financial Corporation (UPFC) provides loans for creation of capital equipment, block assets, etc. The normal rate of interest is 15 per cent with a rebate, of up to 3 per cent for timely payment. The Corporation also provides loans for working capital up to Rs. 1 lakh for export, defence-oriented and agro-based industries. The Pradeshiya Industrial and Investment Corporation of Uttar Pradesh Ltd. (PICUP) provides loans at an interest rate of 9½ per cent with rebate of ½ per cent for prompt repayment. It also underwrites capital issues to the extent of 20 per cent. The PICUP operates a credit guarantee scheme under which it guarantee loans up to Rs. 7 lakhs. One hundred and ninety-two items have been reserved for purchase by the Government. The Uttar Pradesh Small Industries Corporation (UPSIC) provides hire-purchase facilities to these units.

UPSIC considers capital participation up to 51 per cent for units in backward areas. The rate of interest charged is also low, being 13 per cent with 2/3 per cent rebate for punctual repayment —extending the repayment period for 15 years and security margin of 15 to 35 per cent.

The Pradeshiya Industrial and Investment Corporation of Uttar Pradesh Ltd. (PICUP) grants to new or expanding units long-term, interest-free loans equivalent to sales tax paid for 3 years (5 years for backward districts). This loan is repayable in 3 annual instalments after 10 years (12 years in backward districts). The ceiling applicable is 50 per cent of the gross block in non-backward, and 75 per cent of the gross block in backward areas.

*Exemption from Sales Tax on Raw Materials*

Raw materials required for certain specified item manufacture

are exempted from sales tax for 3 years (5 years in case of backward districts). For other raw materials a concessional sales interest rate ranging between 13 to 15 per cent with rebate for timely payment depending upon the location of the land Readymade sheds are allotted on easy terms in industrial estates.

*Land and Infrastructure*

Developed plots with all infrastructure facilities are allotted by the UPSIC on a 90 years' lease, for a premium of 10 per cent to 25 per cent. The balance is payable after 2 years with an interest rate ranging between 13 to 15 per cent with rebate for timely payment depending upon the location of the land. Readymade sheds are allotted on easy terms in industrial estates.

*Exemption from Electricity Duty*

New units in backward districts are exempted from duty for 5 years, from January 1973.

In the State Government's purchase programme 15 per cent price preference is given to products of small units over products of medium and large-scale units. This preference in price is 5 per cent over SSI products from outside states.

*U.P. Small Industries Corporation*

The UPSIC makes available machinery on hire-purchase basis on easy terms.

## UNION TERRITORY OF GOA, DAMAN AND DIU

The Economic Development Corporation of Goa, Daman and Diu Ltd., has been set up with the responsibility for identification and promotion of the right type of industrial projects at suitable locations by directly undertaking a project or by joint participation with other government or private bodies or by providing financial assistance of various types.

*Capital Subsidy*

15 per cent outright grant as capital subsidy is available all over the territory. The Government of India has announced an income tax set-off of 20 per cent in the pre-tax profits for 10 years. The new manufacturing units are exempted from sales tax for 10 years.

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*Land and Infrastructure*

Goa, Daman and Diu Industrial Development Corporation has established industrial estates and industrial areas. In estates ready-made sheds are available on a rental basis, subsidized for 5 years. In industrial areas plots are allotted on a long-term lease basis. The rental subsidy is 50 per cent during the first and second years, 40 per cent during the third year and 25 per cent during the fourth and fifth years.

Industrial units having connected loads up to 20 H.P. are allowed power subsidy equal to the difference between the actual rate paid and 9 paise per unit. In the case of registered small-scale industries, the minimum tariff for connected load up to 150 KVA is Rs. 3 per H.P. and the rate per unit is 14 paise.

The Department of Industries, Goa, Daman and Diu, forwards loans up to Rs. 1,00,000 to co-operative societies and up to Rs. 25,000 to other industrial units on a nominal rate of interest of 3 per cent repayable after 10 years in case of term loans and after 5 years in case of working capital. This territory is excluded from the RIP programme.

The MSFC also operates in Goa, salient features and other terms of which are discussed elsewhere. In addition to the above, credits are also available from the ICICI, IFC and IDBI.

Seventy-five per cent of the cost of the feasibility study is subsidized by the GDDIDC. 15 per cent price preference is given to SSI products in Government's purchase.

*Tours of Industrialists*

The government arranges tours of entrepreneurs to other parts of the country to acquaint them with industrial progress. 50 per cent of the travelling allowance and D.A. admissible to class I officers is borne by the government.

A technical entrepreneur already having his own factory wholly or partially can get assistance up to Rs. 2 lakhs, inclusive of working capital. Certain categories of industries are also financed by the MSFC on liberalized terms of guarantee.

*Chapter 8*

# SICOM SOWS THE SEEDS

WHENEVER I have gone on my business tours to other States, be it Karnataka or Orissa or any other State, entrepreneurs and State officials keep on asking about SICOM and the good work it has been doing in Maharashtra. The performance of this institution in promoting industrial activity in the developing areas of Maharashtra as well as in sanctions and disbursements of financial assistance is such as to induce its counterparts in other States to take cues from this organization. Set up by the Government in 1966 with a view to promoting industrial development in the underdeveloped areas of Maharashtra, SICOM's objective was to enable the Corporation to concentrate its full attention on three areas. Its jurisdiction has been especially kept confined to the areas outside the Bombay-Thane-Pune belt. The Corporation provides wide-ranging facilities and concessions to entrepreneurs intending to set up industrial units in the developing areas of the State. SICOM is pursuing its drive to attract industries to backward areas of the State not merely with the help of incentives but by undertaking activities having a vital bearing on the development of the industries concerned. Some of these incentives are devised and implemented by SICOM, while some others like the Package Scheme of Incentives and Guarantees for Medium-scale Units are administered by it, on behalf of the State Government on an agency basis. It also disburses the Central Capital Subsidy to the projects which are assisted by it and later gets reimbursed from the Central Government. The Corporation's own schemes consist of project identification, project promotion and investment guidance, plant location service, financial assistance by way of loan, equity and underwriting facilities, capital participation scheme, industrial escort services and the newly-started merchant-banking division. The State Government has entrusted the administration of the Package Scheme of Incentives to SICOM. The Scheme was first sanctioned in 1964 and envisaged the following concessions :

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(1) 75 per cent contribution towards the cost of feasibility study of a project;
(2) Electricity tariff concession equivalent to difference between the Maharashtra State Electricity Board's tariff and Tata Electric Company's tariffs in Bombay;
(3) Sales tax refund limited to 8 per cent of the fixed assets of the unit;
(4) Octroi exemption;
(5) Training of labour;
(6) 10 per cent grant out of 25 per cent of the industry's share under the subsidized industrial housing scheme;
(7) Preferential treatment in store-purchase.

Certain modifications were introduced in 1973 when graded incentives were made, depending on the location. Industries going to the interior and more backward regions were made eligible for incentives at higher rates and for longer durations than those located nearer the developed regions. The rates of incentives admissible in more backward areas were also stepped up.

## Credit Guarantee Scheme

SICOM administers on behalf of the State Government the Credit Guarantee Scheme for Medium-scale Industries. It had sanctioned capital investment subsidy under the Central Government scheme to 127 units by the end of March 1976. These units involved fixed capital investment of over Rs. 67.81 crores and were eligible to get a subsidy of Rs. 4.85 crores. Out of these, 90 units had received the subsidy amount of Rs. 2.54 crores from SICOM by the end of March 1976.

SICOM has recently opened up another channel of assistance —the Seed Capital Scheme. The new service offers initial financial assistance towards the promoter's contribution/equity in the form of seed capital to professionally qualified and new entrepreneurs for setting up projects with capital cost ranging from Rs. 10 lakhs to Rs. 100 lakhs each. The scheme is operated in Maharashtra on behalf of the IDBI. The seed capital is restricted to a maximum of 10 per cent of the project cost subject to a ceiling of Rs. 10 lakhs and can be given to make up the gap in the equity to be brought in for financing the project. The scheme is also available to small-

scale manufacturers who desire to move into the medium-scale sector for the first time, provided such entrepreneurs are professionally qualified or experienced in industrial management. The seed capital can be given to proprietary and partnership concerns, in the form of soft loans which are interest-free and recoverable after an initial moratorium of five years. In the case of private limited companies, the assistance is in the form of redeemable cumulative preference share capital, usually redeemable after 12 years. Lastly, the assistance to public limited companies is made in the form of direct contribution to the equity with a repurchase obligation attached. Entrepreneurs desirous of availing of seed capital are interviewed by a screening committee of SICOM and representatives of the IDBI on which technical and financial experts are co-opted.

SICOM's assistance, however, has not been confined to the medium and large industries. At the end of 1977-78, over 500 small-scale entrepreneurs were on the SICOM roster. They are all beneficiaries of SICOM's Capital Participation Scheme, when it was introduced in October 1967. It has another revolutionary look about it by virtue of its quasi-equity loans of up to 25 per cent of the fixed assets, leaving the balance 75 per cent to be met by the promoter's contribution (25 per cent) and either the Maharashtra State Financial Corporation or one of the 13 commercial banks which, by agreeing to loan 50 per cent of the funds required for fixed assets, were partners in SICOM's scheme.

The financial assistance sanctioned by SICOM rose by 6.3 per cent from Rs. 16.85 crores to Rs. 17.90 crores for the year ended March 1978. The disbursements were also higher at Rs. 11.78 crores against Rs. 10.74 crores in the preceding year. SICOM's cumulative sanctions at the end of its 12th year stood at Rs. 125 crores, to 1128 units. The most salient feature of the Corporation's performance during the year was refinance of Rs. 475.91 lakhs sanctioned by the IDBI towards SICOM's own sanctions. This IDBI facility has helped augment SICOM's resources and benefited projects to come up at a reduced interest rate of 9½ per cent for backward areas and 12½ per cent for non-backward areas. As against the total of 243 units it committed to Maharashtra's developing areas in 1976-77, SICOM recorded a much more improved performance in 1977-78 assisting as many as 351 units,

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entailing a capital investment of Rs. 96.04 crores, being committed to the Corporation's area of operations. The cumulative total of units commissioned up to March 31, 1978 rose to 2,763 recording an increase of 14.55 per cent over commitments up to the end of the previous year as against an increase of 11 per cent during 1976-77. Out of a total of 2,763 units commissioned till March 31, 1978, 2,051 units entailing an investment of Rs. 521.99 crores had either commenced production or were under construction as on that date. The 1,826 units in production, entailing capital investment of Rs. 378.56 crores have provided direct employment to 90,043 persons. Further taking into account the jobs provided by the units under construction, total employment generated by the assisted units was 91,636 on that date.

## TINY UNITS

The small and tiny industrial units in the underdeveloped areas of the state can now avail themselves of loan facilities up to 85 per cent of their fixed assets. A new scheme aimed at encouraging the establishment of new industrial units was recently finalized by five commercial banks: Bank of India, Central Bank of India, Bank of Maharashtra, State Bank of India, and Sangli Bank. Under this scheme, loans are sanctioned up to a maximum of 75 per cent of the fixed assets, the banks' contribution being 50 per cent. But special facilities of loans up to 80 per cent of the total fixed assets would be extended in the following cases :

(1) industrial units run by technically qualified persons;
(2) those creating basic engineering facilities in the area;
(3) where marketing assurances from large-scale units are contractually entered into with public sector undertakings;
(4) units promoted by candidates trained under the Entrepreneurial Development Training Programme (EDP) conducted by SICOM.

In respect of these categories, SICOM has increased its share of assistance up to 30 per cent. The facility of 85 per cent loans would be extended only in exceptional cases. All small-scale units, excepting those with investment in fixed assets exceeding Rs. 5

lakhs located in the backward areas of the State which are already availing of facilities under the Package Scheme of Incentives, will be considered eligible as small units.

SICOM was the first organization in the country to introduce the marketing concept in development banking. From its inception, it has assumed an active and not a passive role in development. SICOM managers have always gone out to seek entrepreneurs and to sell the idea that it was profitable to set up an industry in the developing areas. The Corporation has consistently followed the principle of concentration by laying stress on a few growth centres at a time. With its limited financial, technical and managerial resources, SICOM followed the policy not to scatter them, but to concentrate them in the growth centres. After the growth centre achieved the take-off stage, SICOM moved on to new growth centres. From the marketing angle, SICOM's stress has mainly been on the growth centres.

## Terms and Conditions of Assistance

It is interesting for you to know that the soft loans to proprietary and partnership concerns of SICOM are interest-free. Personal loans to the proprietors of the private and public limited companies are also interest-free. However, a service charge of 1 per cent per annum is levied on the outstanding amount of the loan. A moratorium in the repayment of instalments of loans is given for a maximum period of 5 years. The entire loan is recovered in suitable instalments as may be fixed by SICOM at the time of sanctioning the loan. For assistance by way of subscription to share capital, a repurchase/redemption obligation is stipulated so that the shares are repurchased/redeemed within a specific period. The shares of the entrepreneurs are pledged with SICOM until the date by which the proprietor and/or his nominee repays the personal loan and/or repurchases the equity, and/or preference shares, if any are redeemed. The pre-condition that the promoter should put up some of his own funds is based on the premise that unless he is made to do so, his interest in the project may not be that deep. Against this, the IDBI funds are to be deemed as soft loans for which no interest would be charged if these loans are obtained by proprietary and partnership concerns.

## Eligibility Criteria

Professionally qualified entrepreneurs such as technicians and persons qualified or experienced in industrial management or other disciplines that are of importance for starting and implementing the project would be eligible for assistance under the scheme. The entrepreneur should be such as would convince SICOM that, besides enough finance to meet the normal promoter's contribution, he has other necessary skills to start and implement the project.

Further, he should be a new entrepreneur. However, persons who may have started or have been associated with small-scale ventures as directors/partners but who now propose to move into medium-scale sectors are also considered. This, you will agree, is an attractive proposition. As an entrepreneur, he is the single most important factor in any project. His background, qualifications, perception and managerial competence are screened very carefully by a screening committee comprising senior officials of SICOM, the IDBI and an outside expert. The project sponsored under this scheme should be the first project by the eligible promoter. It should be a new project in priority sectors such as in backward regions, a foreign exchange earner or savings project or a project based on indigenous technology. It should be financially sound, technically feasible and economically viable. The cost of the project should not exceed Rs. 1 crore.

## MSFC Contributes Its Mite

The Maharashtra State Financial Corporation is another ideal financial institution catering to the requirements of the small and medium-scale sectors. It grants financial assistance to public and private limited companies and co-operative societies up to Rs. 30 lakhs and to proprietary and partnership concerns up to Rs. 15 lakhs. It was created mainly to meet the term loan requirements of small-scale and medium-scale industries for acquisition of assets like land, buildings, machinery and equipment. The role of MSFC in the development of small-scale industries is evident from the fact that 93 per cent of the units assisted between 1962-63 and 1976-77 belonged to the small-scale sector. Loans are given against the security of fixed assets, normally for

a period of 10 years, with a moratorium for 2 years.

The period, however, can vary, depending upon the repaying capacity of the industrial unit. There are 13 districts in Maharashtra which are declared backward. They include all the five districts of Marathwada and four districts of Vidarbha. Further, the entire Union Territory of Goa, Daman and Diu is declared as backward. Industrial units located in the backward districts of Western Maharashtra get a concessional rate of 8½ per cent, subject to the availability of refinance and the industrial units located in Goa, Daman and Diu get loans at a concessional rate of interest of 9½ per cent. Further, three districts in Maharashtra (Chandrapur, Aurangabad and Ratnagiri) are eligible for central subsidy of 15 per cent which is disbursed by the MSFC in respect of assisted units. The MSFC has special schemes for educated unemployed persons with matriculation as the minimum qualification and registration with the local employment exchange and to technicians with the minimum qualification of a diploma or degree with three years' experience or five years' practical experience in the absence of a degree or a diploma. More recently, it has also started a Young Technicians' Assistance Scheme.

A majority of small loan cases i.e. up to Rs. 2 lakhs are disposed of within three months and in some cases even earlier. It is the endeavour of the MSFC to reduce the time gap between sanctions and disbursements. Here you must remember one thing: that the success of this depends on entrepreneurs giving all the information required for processing loan applications. Many of the small enterprises have recently come forward to take the assistance of the World Bank Scheme operated through the MSFC with the co-operation of the IDBI to assist them to cover such plant and machinery that they could not obtain in India. Here it must be pointed out that the World Bank line of credit of $ 40 million made available to the IDBI has been lent to the State Financial Corporations to enable them to make foreign exchange loans for import of plant and machinery from any member-country of the World Bank. Rate of interest on foreign exchange loans for small-scale units covered under the Credit Guarantee Scheme and units in backward areas is 11.5 per cent and in other cases it is 12 per cent. The minimum total loan that can be given is Rs. 30 lakhs. One must give credit that the MSFC

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was not only the first among State Financial Corporations to extend this facility of the World Bank Scheme, but also that it utilized the highest share of the amount available under the IDA credit, namely 21 per cent.

The Corporation has very recently introduced a new facility of pre-final sanction signal to enable small loan applicants, of up to Rs. 2 lakhs to proceed with preparatory steps for disbursement, including finalization of legal documentation. Under this facility, the Regional Managers of the MSFC would indicate within a month of filling of applications whether *prima facie* the application is likely or unlikely to be sanctioned. The MSFC is, however, not committed to sanction funds unless a sanction letter is actually issued and the terms and conditions of the sanction letter are complied with. The Corporation has further provided various activities to attract individuals to come forward to take advantage of the various facilities.

It is true that there is no dearth of funds with banks or financial institutions. In fact they are overflowing, even trying to outdo each other, in attracting the borrower. There are many agencies which vie with one other to woo the borrower. Very often, delays are caused by the applicant not supplying the necessary information and securities called for in time. The rate of interest of the MSFC, repayment period and processing fees are very considerate. In the developed and the developing areas of the State (that is 13 districts in all) and of the Union Territory, they are only 11 per cent, with refinance from the IDBI and only 8½ per cent again with refinance in the remaining 13 districts of the State which are declared backward. The repayment period of 10 years includes a moratorium on the principal for 2 years. The interest has to be paid only every six months. Nearly 80 per cent of the sanctions which are up to Rs. 2 lakhs which are cleared at the regional levels are sanctioned within 2 months.

Maharashtra is the State most advanced in industrial development, including small-scale units. There are 40,000 to 50,000 such units employing some 700,000 persons. The largest number of them are assisted by various government agencies. In Maharashtra, there are 69 industrial estates in which over 2,000 units are functioning, employing nearly 40,000 persons. Thus the scope for development of small-scale industries all over the country is very large. In the specified 13 backward districts

the Corporation operates the soft loan scheme by availing of refinance facilities at a concessional rate of interest from the IDBI. The Corporation grants financial assistance for import of plant and machinery under the International Development Assistance line of credit. The Corporation disburses central subsidy to the projects assisted by it and located in the three specially selected backward districts in Maharashtra (Aurangabad, Chandrapur, Ratnagiri) and gets it reimbursed from the Government of India.

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*Chapter 9*

# THE ROAD TO RICHES: YOU CAN BANK ON THEM

"TODAY, BIG business is no longer the sole business of banks. It is the small farmer, the entrepreneur, the trader and the small manufacturer who is being engaged to play a pivotal role in strengthening the nation's economy," so reads an advertisement in the London *Times* in the recent supplement on Indian Banking and Finance. Some time ago I came across an interesting brochure issued by a nationalized bank with the headlines: "Tired of looking for a job? Look inside... for a new idea". It is not a cliché to say and you will agree with me that the wind of change has recently swept the banks in India. An Indian banker is now no longer a conventional, over-cautious person harvesting the fruits of riches, he is a pace-setter and an active partner in the process of economic development. He is your friend, guide and philosopher. Banks are the largest repositories of financial resources; the key allocators of finance. The funds at the disposal of the banking sector are channelized as per the priorities laid down in our Five Year Plans. Today, Indian banks have the largest network of branches spread throughout the country. This extensive network enables the banking sector to cater to the financial and development requirements of the traditional, non-factory sector which has its roots mostly in the rural area and the small industry which has an excellent growth potential in our rural areas.

The saga of Indian banking reads like a fairy tale. In the pre-Independence days of the shyness of Indian capital, many entrepreneurs tried to have recourse to banks. But the banks would not oblige. The unsympathetic British banks dominated the scene and even the few struggling Indian banks chose to follow the British philosophy of banking, i.e. loans could be given only for a limited period against self-liquidating liquid assets. The very concept of lending money for long-term lock-up in fixed assets was supposed to be so "unsound" that no sound

banker would even consider it. There came about a radical change after Independence in the actual operation of the lending policy of the banks. In the pre-Independence days money was lent mainly to merchants and indigenous bankers who had self-liquidating assets par excellence. The banks used to lend mainly to industrial units. In due course industrial units came to account for by far the largest part of bank loans. The shift in favour of bank loans for industries in the post-Independence period was particularly facilitated by the fact that there was a close interlocking of the directorships and even ownership of banks and industrial units.

Commercial banks emerged as the source of finance in the private organized sector in general and industry in particular. Funds were made available to industry at extremely low rates of interest. While agriculturists and small artisans paid interest charges ranging from 20 per cent to 100 per cent per annum on their borrowings from money-lenders, the industrialists paid only 10 per cent.

## Revolution in Banking

After the nationalization of 14 commercial banks in 1969, a radical change took place. Until now banks were financing only men of means who could comply with their security and margin requirements. Bank credit was restricted to benefit only conventional borrowers, comprising essentially entrepreneurs in large-scale industries. Banks were supposed to lend against securities which could satisfy the MAST (Marketable, Ascertainable and Stable value, easy Transfer) principle. According to the MAST principle, those goods which are readily marketable, whose price can be easily ascertained, whose value is stable, and which can be transferred or sold without a loss in value are considered deserving lending propositions. Today the banker attaches prime importance to the viability of a business proposition and subordinates the security aspect. If the business proposal is technically sound and commercially viable it is financed even if the promoters are not in a position to bring in adequate quantity to finance the banker's margins. The credit-worthiness of a borrower is judged on the basis of his technical and managerial competence, his net worth being given a secondary place. Entrepreneurs are encouraged

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to set up their own projects if they are found worthwhile and viable projects irrespective of their financial resources or personal securities in assets. Recently, banking assistance has undergone a tremendous change. The accent is on assistance to small-scale industrialists. Security is no longer looked upon as the basis for longer operations. The Small Industries Development Organization with its network of small industries service institutes, expansion centres and workshops provides a package of services. Similarly, financial institutions have been rendering financial as well as other types of assistance to the small-scale sector. The type of assistance provided by banks is cash credit which is meant mainly for working capital. Almost all nationalized banks, and also non-nationalized banks, have various schemes of financial assistance to:

(i) Small-scale industries;
(ii) Technocrats;
(iii) Professional and self-employed persons;
(iv) Transport operators;
(v) Retail traders and small businessmen.

These schemes are being rapidly increased and their scope widened.

## State Bank of India

The State Bank of India has a scheme for financing small-scale industries. Units that are engaged or to be engaged in manufacturing/processing activities are eligible for financial assistance provided their investment in plant and machinery, at the original cost, does not exceed Rs. 10 lakhs. Financial assistance is available by way of working capital as well as for acquisition of fixed assets. No ceiling is in force. Credit facilities are being considered on the basis of assessed needs of individual borrowers. However, in so far as the quantum of loan for acquisition of machinery is concerned, it is subject to the overall ceiling of Rs. 10 lakhs, as is mentioned under the head "Eligibility".

### *Margins*

For working capital advances, the normal range of margins varies between 10 per cent and 40 per cent. For term loans, while a

margin of $33\frac{1}{3}$ per cent is being considered for the purchase of land and construction of factory sheds thereon, for acquisition of machinery a margin of 25 per cent is considered reasonable. These margins are relaxable, depending upon the merits of each case and, among other factors, the capacity of the borrowers to meet them is also taken into consideration.

*Security*

For working capital advance pledge/hypothecation of raw materials, semi-finished goods, finished goods, bills, book-debts, etc. is taken. For term loans registered/equitable mortgage of fixed assets and/or pledge/hypothecation of machinery is taken. Collateral security is also taken, where available. Advances granted by way of working capital are repayable on demand but are renewable every year. Advances granted by way of term loans are repayable within a period of 7 to 10 years, in suitable instalments depending upon the profitability of the scheme/project. Start up period is also considered, wherever necessary.

*Interest*

For advances other than those granted under Entrepreneur Scheme upto Rs. 25,000—4 per cent below S.B. Advance Rate—minimum 10 per cent. Between Rs. 25,001 and Rs. 1 lakh—2 per cent below S.B. Advance Rate—minimum 12 per cent.

Between Rs. 1,00,001 and Rs. 2 lakhs—1 per cent below S.B. Advance Rate—minimum 13 per cent. Between Rs. 2,00,001 and Rs. 10 lakhs—S.B. Advance Rate—minimum 14 per cent. Over Rs. 10 lakhs—1 per cent over S.B. Advance Rate—minimum 15 per cent*.

In the matter of financing small-scale industries, the Bank's approach is need-based and not security-oriented. The credit requirements are also assessed on specific lines and once the requirements are so assessed, the Bank expects to meet them in full. As a reciprocal gesture, the Bank expects the borrowers to provide whatever security that is available with them. However, adequacy or otherwise of security is not allowed to influence the credit decision. Further, clean facilities, where warranted, are also considered for productive purposes, including the provision of

* Reduceable to 14 per cent per annum if the unit qualifies for 'satisfactory' rating.

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margins, where the borrowers are not in a position to provide the stipulated margins. Apart from this, the assessment of working capital requirements takes into account the import/export features, if any, of the business, thus packing credit advances as also the establishment of letters of credit for import of materials are also considered and, in terms of the current directives of the Reserve Bank, advances granted by way of packing credit for financing export operations, carry a concessionary interest rate of 7 per cent per annum.

## Entrepreneur Scheme

The scheme has a laudable objective. Persons who are qualified/ experienced in the proposed line of activity are considered eligible for financial support under the scheme. However, those who are owning small-scale industries or are having a share in the existing units, are not considered eligible. This requirement is, however, relaxable in specified circumstances.

### *Purpose for which Finance is Available*

Under the Scheme, credit facilities are available both for meeting working capital as also for acquisition of fixed assets.

### *Amount of Loan*

The maximum amount of assistance available under the Scheme is Rs. 2 lakhs for an individual entrepreneur and Rs. 3 lakhs in case where two or more qualified entrepreneurs are associated. These ceilings are relaxable, depending upon the merits of each case.

### *Margins*

The distinguishing feature of the Scheme is that inability on the part of the eligible borrowers to provide margins is not allowed to come in the way of the Bank extending the requisite support for an otherwise worthwhile proposition. Thus, financial assistance under the Scheme could, where warranted, cover 100 per cent of the cost of the project.

### *Repayment*

Working capital advances, although repayable on demand, are

renewable every year. Term loans, however, are repayable, within a period of 5/7 years in suitable instalments depending upon the profitability of the scheme/project. Start-up period is also considered, wherever necessary.

*Interest*

Upto Rs. 25,000—4 per cent below S.B. Advance Rate—minimum 10 per cent. Between Rs. 25,001/- and Rs. 2 lakhs—2½ per cent below S.B. Advance Rate—minimum 11½ per cent for the first 3 years. Thereafter the usual rate depending upon the slabs.

Over Rs. 2 lakhs—1½ per cent below S.B. Advance Rate—minimum 12½ per cent for the first 3 years. Thereafter at the usual rate depending upon the slabs.

## Central Bank of India

Central Bank has played a leading role in the progress of the small-scale sector. To deal effectively with their needs the Bank adopted a very flexible approach — relaxed rules and regulations to make borrowing easier both ways: to take and to repay. Towards this end, Central Bank has formulated more schemes for small-scale industrialists.

*Schemes: Term Loans*

For the setting up of a new unit and for expanding, modernizing or renovating an existing unit, term loans are granted.

*Medium Term Loans*

This facility is available for the purchase of land and construction and/or the purchase of factory building, machinery and equipment. These loans are repayable over a period of three to seven years. In very difficult circumstances this facility is extended to 10 years.

*Working Capital*

To keep production going smoothly — cash, credit, bill purchase/discounting facilities, for purchase of raw materials, for goods in process and finished goods working capital can be advanced. Advances against book-debts are also considered.

*Finance for Export*

Advances in the form of packing credit, pre- and post-shipment finance are given. Associated services in this connection are available with ease and speed. Opening of inland and foreign letters of credit; issuing of guarantees for machinery on deferred payment; facilities for trust receipts, transfer of funds etc are also available.

*Amount of Finance*

For the purchase of land, Central Bank extends finance that is equivalent to 50/60 per cent of the purchase price. For construction/purchase of factory building 60/70 per cent of the cost. For working capital requirement 70/75 per cent of the outlay. These are not hard and fast rules. For deserving cases and viable projects, the Bank would relax them.

*Security*

Term loans are given against fixed assets such as land or factory building; also against plant and machinery. Raw materials and stocks, both finished and in process constitute good security. Raw materials that are not to be processed immediately, can also be pledged as security. But, security is not of primary importance. What is important is the capability of the individuals engaged in the project and the soundness of the project.

*Double Benefit*

Small-scale industrialists who have borrowed from State Financial Corporations or taken machinery on hire-purchase from Government Corporations, will be allowed working capital facilities by the Bank.

*Technicians*

Central Bank has special schemes for technocrats with technical experience in some line. Loans with reduced margins or with no margin at all are often considered for such people, to enable them to make use of their expertise.

*Assignments*

(1) Identifying entrepreneurs.

(2) Selecting profitable lines of manufacture for the entrepreneurs.
(3) Providing consultancy services for preparing project reports.
(4) Making adequate arrangements for in-plant training of the selected entrepreneurs.
(5) Providing adequate financial assistance to meet the cost of the project.
(6) Securing incentives and facilities that are being extended to new entrepreneurs by Developmental Agencies of the Government and non-Government Institutions.
(7) Providing marketing facilities through Government/private agencies.

*Eligibility*

(1) Any entrepreneur holding a technical degree/diploma from a recognized University or Institution with the required technical know-how and/or some experience in the industrial field will be eligible for facilities under the scheme. Non-technical persons with adequate industrial experience will also be eligible.
(2) Once the scheme is duly certified as technically feasible and economically viable by a consultant appointed by the Governing Council and approved by the Screening Committee, it will be eligible for financial assistance.

*Extent of Finance*

Total finance for a project will be limited to Rs. 3 lakhs in case of partnership firms, where two or more entrepreneurs jointly venture to start a project, and Rs. 2 lakhs in case of proprietary firms. Higher limits will be considered for deserving cases.

*Rate of Interest*

| *Types of Advances* | *Interest Rate* |
|---|---|
| S.S.I.s | |
| 1. Upto Rs. 25,000 | $10\frac{1}{2}$ per cent |
| 2. Units between Rs. 25,000 and Rs. 1 lakh | |
| (i) Key loan advances | $12\frac{1}{2}$ per cent |
| (ii) Open loan advances | 13 per cent |
| (iii) Clean loans | $13\frac{1}{2}$ per cent |
| (iv) Term loans | 13 per cent |

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| | | |
|---|---|---|
| 3. | For units with limits between Rs. 1 lakh and Rs. 2 lakhs | $14\frac{1}{2}$ per cent |
| 4. | Accounts with limits between Rs. 2 lakhs and Rs. 5 lakhs | $15\frac{1}{2}$ per cent |
| 5. | Limits above Rs. 5 lakhs | 16 per cent |

### Indian Overseas Bank

The bank extends credit facilities to all viable small-scale industries on a comprehensive basis taking into account the genuine credit needs of small-scale industries. The terms and conditions are as follows and in deserving cases the margins stipulated are relaxed or wherever necessary even clean limits are extended.

| | | |
|---|---|---|
| (1) | Term Loan for acquisition/margin construction of factory sheds or factory premises. Repayable in easy instalments in 3 to 5 years | — 50 per cent |
| (2) | Term Loan for purchase of machinery. Repayable in easy instalments in 3 to 5 years | — 25 per cent |
| (3) | Cash Credit against pledge or hypothecation of raw materials, finished goods, work in progress etc. | — 25 per cent |
| (4) | Letters of Credit for import of raw materials | — 10 per cent |
| (5) | Letters of Guarantee in lieu of security deposits, earnest money etc., favouring Government Departments | — 10 per cent |
| (6) | Purchase/discounting of bills arising out of sale of products | — NIL |
| (7) | Deferred payment guarantees for purchase of machinery | — 10 per cent |

Interest is charged at prevailing rates and the present rates are $13\frac{1}{2}$ per cent to 14 per cent for advances of less than Rs. 2.00 lakhs and $14\frac{1}{2}$ per cent to $16\frac{1}{2}$ per cent for advances of over Rs. 2.00 lakhs.

In addition to the above general schemes, in order to create job opportunities and assist qualified unemployed engineers to set up viable small-scale units, credit facilities upto Rs. 2.00 lakhs

are extended with nil margin for term loans and low margin for other facilities. In such cases, the entrepreneur is expected to obtain seed money from the Government wherever obtainable and retain the same in the working capital pool.

All credit facilities sanctioned to Small-Scale Industries are brought under the Reserve Bank of India, Credit Guarantee Scheme.

*Help to Engineers/Technicians*

Indian Overseas Bank extends finance, on concessionary terms to qualified engineers/technicians to set up ancillary small-scale units. To be eligible for this facility, they must have a tie-up arrangement for sale of parts/components manufactured by them to medium/large industrial units. A proposition posed for credit should be technically sound and economically viable. It should lead to the generation of sufficient income to enable the borrower to service and repay the advance without strain. A satisfactory technical and financial feasibility report should be obtained from the Small Industries Service Institute. The applicant should also be able to establish that he has the necessary skill to manage an industrial unit of the proposed size.

*Purpose, Amount and Repayment Term*

The Bank would fix the quantum of finance according to the nature of the industry and the borrower's actual reasonable need. Term credit will be provided for acquisition of machinery and equipment. In appropriate cases the Bank may consider extending credit on a low margin or even without margin. In such cases, a suitable guarantee/collateral acceptable to the Bank will be called for. The borrower should give an undertaking to the effect that no part of the funds of the unit or the surplus accruing would be withdrawn for any purpose unconnected with the business. The surplus would normally be utilized for repayment of term debt from the Bank. Repayment will be in convenient instalments spread over a maximum period of 5 years.

The Bank provides working capital finance for purchase of raw materials, to process them and to hold and market finished goods. In the case of a highly profitable venture, where other security is not available, small, clean loans may be granted for temporary periods depending upon the need and viability of the enterprise

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and consistent with repayment capacity.

*Security*

Security for financial assistance will be pledge/hypothecation of fixed and current assets. Assets charged to the Bank should be fully insured. It will also be necessary for the borrower to assign a life insurance for a sum to be agreed upon in favour of the Bank.

## PUNJAB NATIONAL BANK

1. *Scheme for Small-Scale Industries*

**Purpose:** For setting up new units, expansion, modernisation and renovation of existing units.

**Eligibility:** Units engaged in manufacturing, processing or preservation (not trading) of goods and servicing units (certain classified), whose investment in plant and machinery (at original cost) does not exceed Rs. 10 lakhs.

**Repayment:** Term loan 3 to 5 years which can be extended to 7 years on merits.

**Working Capital:** Continuing in nature, renewable annually and payable on demand.

2. *Craftsmen and Qualified Entrepreneurs*

**Purpose:** To provide assistance to qualified/experienced entrepreneurs setting up their own Small-Scale Units.

**Eligibility:** Entrepreneurs having experience and coming forward with a sound project located in an area where necessary infrastructure is available, can be assisted by the bank, upto Rs. 2 lakhs for individuals and upto Rs. 3 lakhs for partnership and limited companies of such entrepreneurs.

**Repayment:** Term loan: 3-5 years. 7 years in deserving cases.

**Working Capital:** Continuing in nature, renewable annually, payable on demand.

**Security:** All the assets acquired with the amount of the loan to be charged to the bank and provide any additional security wherever feasible.

3. *Special Scheme for Credit Facilities to Artisans and Self-Employed Persons*

**Purpose:** To provide self-employment opportunities to artisans,

skilled and experienced in industrial activity, a provision for the sanction of demand loan, is made with a view to catering to the needs of such artisans and for serving the needs of consumers at large. It is also extended to persons engaged in productive activity, trade, industry and export.

**Eligibility:** The artisans must have a fixed place of business. The maximum amount of demand loan can be sanctioned upto Rs. 10,000 by Regional Heads depending upon the need and the scope of the project.

4. *Craftsmen and Exporters of Handicrafts*

To assist these skilled persons in the weaker sector for the manufacture of handicrafts goods mainly for export, the overdraft facility to the extent of Rs. 5,000 and for master crafts upto Rs. 10,000 is provided for the purchase of tools, equipment and raw materials as also for stock of goods in process and finished goods. This is continuing in nature, renewable annually and payable on demand.

**Eligibility:** To become eligible under this special scheme, these craftsmen must have a fixed place of business; they should have an assured market for the products and firm orders in hand.

**Security:** Hypothecation of stocks, tools and implements and other available security besides the guarantee of one or more suitable persons acceptable to the bank.

5. *Scheme for Setting up Industrial Estates:*

**Object:** The Scheme aims at generating employment opportunities for the unemployed and technicians by assisting co-operatives, partnership firms and joint stock companies who have worthwhile projects for establishing industrial estates but are unable to do so for lack of sufficient resources.

**Eligibility:** Co-operative societies, partnership firms and joint stock companies who have sponsored projects for establishing economically viable industrial estates and have the necessary approval of the State Directorate of Industries, would be assisted under the Scheme, preferably on a consortium basis along with other financial institutions.

**Security:** *Pari-passu* charge with other term lending institutions of the immovable property of the estate, existing as well as to be created in future.

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**Repayment:** Maximum period will be 10 years. The loan will be repayable in equal half-yearly instalments; the first instalment starting one year after the completion of the estate.

## UNITED COMMERCIAL BANK

*Advances to Small-Scale Industries*

Provision of adequate financial assistance to the small-scale industries is essential for the following reasons:

(1) They have high employment potential more particularly for the common man;
(2) Their share in export promotion and import substitution is note-worthy;
(3) They prevent concentration of economic power in a few hands;
(4) Helps to more even distribution of national income;
(5) Helps to increase the national wealth which, in turn, raises the standard of living.

**Eligibility:** Units engaged in manufacturing, servicing, repairing, processing and preservation of goods having an investment in plant and machinery at the original cost not exceeding Rs. 10 lakhs are eligible for the bank assistance.

**Purpose of Advance:**

(a) For construction of building factory shed and/or purchase of plant and machinery and equipment, new as well as second hand.
(b) For working capital requirements.

**Type of Facility:**

(a) Term Loan;
(b) Cash Credit by way of hypothecation/pledge;
(c) Bills purchase;
(d) Letter of credit;
(e) Bank guarantee etc.

**Terms of Advance**

*Amount:* As per need-based requirements of the party. No maximum limit stipulated.

**Margin:**

(a) Term Loan—25 per cent to 40 per cent

(b) Cash Credit—25 per cent to 40 per cent
(c) Other facilities: Margin depends upon the nature of unit and the standing of the borrower.

Margin in (a) and (b) may be reduced substantially in deserving cases.

**Security:**

(a) Term Loan—Equitable mortgage of land and building and hypothecation of plant and machinery and equipment.
(b) Cash Credit—Pledge/hypothecation of stocks.
(c) Bills purchase—RRs/MTRs of approved companies for clean and clean endorsed bills.
(d) Collateral security of land and building wherever possible.
(e) A guarantee from an acceptable guarantor, wherever possible.

*Big Help for Engineers and Technicians*

UCO Bank has launched a special scheme with liberal provisions to assist engineering graduates, diploma holders in engineering or otherwise technically qualified persons who are desirous of setting up small-scale industries as well as to other entrepreneurs already in the field who used financial assistance for their units. If you belong to this group, you could avail of UCO Bank offer, and ensure a better and a secure future for yourself.

*UCO Bank Scheme for Setting up Small-Scale Industries*

**Eligibility:** If you are an engineering graduate or a diploma holder in engineering or if you have undergone a course of theoretical training and practical apprenticeship in a recognized industrial unit, you qualify for the scheme. The only conditions are that the unit you intend to set up must be technically and financially viable and that it must be in an area where all infrastructural facilities are available.

**Credit Facility:** Adequate credit facilities can be obtained from the bank both for purchase of equipment and machinery and for working capital. The amount advanced by the Bank will be according to the need of the borrower for setting up/running the small-scale industrial unit.

**Margin:** For term loan 20 per cent to 30 per cent. For working capital—the margin is 25 per cent for raw materials, 30 per cent for finished goods and 10 per cent for Bill Purchased. The margin for bill purchased may be waived at the discretion of the Bank.

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In the event of the borrowers not providing cash margin, insurance policies covering the margin money are to be obtained.

**Interest :** Normally 10 per cent to 11 per cent.

**Repayment :** The term loan is usually repayable within 5 to 7 years, the first instalment falling due 6 months to 1 year after the grant of the loan.

## ALLAHABAD BANK

Details of the facilities which the Bank proposes to be extended to small-scale industries are :

(a) Advances against pledge/hypothecation of raw materials and finished goods at a margin on usually 25/30 per cent. Accommodation can also be granted in approved cases against hypothecation of stocks-in-process.

(b) Trust receipt facilities to a reasonable extent in approved cases. Occasions may arise where a borrower has to despatch goods from the godowns but he does not have the necessary funds to get them released from the Bank's lock. In such cases the Bank may release the goods till the railway receipt or other document of title is available as security for advance, if the borrower agrees to hold the goods so released as a trustee for the Bank and executes a trust receipt.

(c) Advances against trade bills (documentary demand bills) to be collected by the Bank on behalf of the borrowing concern at a margin of 25/30 per cent. In approved cases, accommodation against D/A usuance bills and clean demand bills will also be granted.

(d) Advances against supply bills covering supplies of goods to Government Departments, railways and other public institutions. A margin of 25/30 per cent will be required to be maintained.

(e) Advances against movable machinery to be charged to the Bank repayable by suitable half-yearly or quarterly instalments over a period not exceeding 4 years. Such advances will be allowed for the purchase of new machinery for sums not exceeding Rs. 1 lakh in individual cases, a portion of the cost, say, 20/25 per cent being paid by the borrower.

The payment of the first instalment will be made $1\frac{1}{2}$ years after the actual date of delivery of the plant and machinery. In case of default in payment of instalments, a penal charge of $\frac{1}{2}$ per cent for every month will be made.

(f) In approved cases, the Bank may also consider the grant of medium term loans for periods not exceeding 5 years for purposes of expansion, modernization, renovation etc.

(g) Opening of letters of credit, inland and foreign, at concessional rates of margin or even without margin where necessary and warranted.

(h) Assurance of guarantees on behalf of small-scale industrial units against suitable cash margin on other acceptable security or indemnity policies issued by an approved insurance company.

*Financing Craftsmen and Other Qualified Entrepreneurs*

Loans will also be granted in deserving cases to entrepreneurs desirous of setting up new small industries. The persons concerned must possess the requisite know-how and the ability to operate the project successfully. To start with, however, only such projects will be entertained where the total financial assistance to an entrepreneur can be limited to Rs. 1 lakh. Financial accommodation under the scheme may be extended upto Rs. 3 lakhs in deserving cases.

Preference for advances under the aforesaid scheme will be given to defence-oriented and export-oriented industries so also those providing essential consumer goods and small industries which are ancillary to large industries which provide a basis for agricultural development and further industrialization. In all cases there must be ready supply of raw materials, preferably indigenous, and the end-product must have an assured market.

The project must be technically sound and economically viable. Confirmation will be required from the Small Industries Service Institute or the Director of Industries that the project is technically feasible and that the products of the unit will have a ready market.

## Bank of India

Bank of India's Credit Schemes have been successful in attracting new entrepreneurs. The Bank provides financial assistance to

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technocrats for setting up of small industries or business by craftsmen and technicians.

*Eligibility*

(1) Craftsmen without technical qualification but with practical experience of 3 years or more in the line.
(2) Diploma and/or degree holders with or without any practical experience.

*Limit*

(i) Rs. 2 lakhs in the aggregate for an individual.
(ii) Rs. 3 lakhs if two or more persons sponsor the project.

*Margin*

20 per cent to 40 per cent depending on the type of security.

*Principal Security*

(a) Mortgage of fixed assets/hypothecation of machinery.
(b) Pledge, hypothecation of raw materials, goods finished in the process.
(c) Hypothecation of book-debt.
(d) Bills purchased or discounted.

*Period of Payment*

Fixed assets 5/7 years with suitable moratorium.

The Bank has also a scheme of financial assistance to small and medium scale industries in participation with State Industrial and Investment Corporation of Maharashtra Limited. The purpose has been for acquisition of fixed assets viz. land, building, plant and machinery.

*Eligibility*

(i) Units located/to be located in Gujarat/in industrially underdeveloped areas of Maharashtra.
(ii) Technically feasible and economically viable project.

*Principal Security*

Mortgage of fixed assets in favour of the Bank and SICOM/GIIC on a *pari passu* basis.

*Period of Payment*

7 years in the case of the Bank and 9 years in the case of SICOM/GIIC.

The Bank has attractive schemes of financial assistance to transport operators, professionals and self-employed persons, power-loom weavers, handloom weavers, *ambar charkha* and other village artisans etc.

## More Banks and More Schemes

The Schemes are being rapidly increased as our Government wants Banks to play a pivotal role in our economy. I have personally seen a number of commercial and co-operative Banks being very helpful. There are many banks in India, well-branched out, and well-spread through the countryside. And for that matter, I recommend you to see any bank near you, and get the facts.

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30·10·1986

*Chapter 10*

# SMALL IS BEAUTIFUL

"SMALL IS BEAUTIFUL" is a policy which needs all the encouragement in the world. That is one reason why the Government's new industrial policy, announced on December 23, 1977, is in favour of the development of the small-scale sector and assiduous promotion and nurturing of cottage and rural industries widely dispersed in rural areas and small towns. The Government has increased the list of reserved products for development in the small-scale sector to 807. It has also decided to review the list and add more items which appear to be capable of being produced in the small-scale sector. The policy envisages curbs on setting up new industrial units around large metropolitan or urban areas. Modern large-scale industry is generally urban in character and produces certain undesirable side effects like proliferation of slums, unplanned urbanization and social and health hazards resulting from air and water pollution. On the other hand, rural industries do not create such problems, and provide local employment opportunities, obviating migration of people from rural areas to urban centres in search of employment. In fact, the characteristics of a developing country like India are well-suited to the establishment of rural and small-scale industries covering a wide range of traditional and modern small-scale industries including handloom, powerloom, sericulture, coir, handicrafts and khadi. They are capable of providing larger employment opportunities with a relatively smaller capital investment and without any foreign exchange component. They help to reduce different types of disparities—social, economic and regional—and to establish a rural-based economy. It is now noted that since 80 per cent of our people live in rural areas, without a rapid increase in their purchasing power, the market for industrial goods, and hence the scope for industrial development, would remain restricted.

The small-scale sector acts as a catalyst. Small business firms constitute an important part of today's business system. In fact, the role of small business in economic history has been one of

distinction and great contribution. In all countries small business provides employment for a substantial proportion of the industrial labour force and accounts for a large proportion of all industrial sectors. In India, there are about four lakh small-scale industrial units registered with the different State Directorates of Industries, under the system of voluntary registration and an equal number of unregistered units, together providing employment to more than eight million people. The small-scale sector contributes about 40 per cent of the total industrial output in the country, and about 7 per cent of the gross national product, and also about half of the value added in the manufacturing sector. In the matter of production, the small-scale industrial sector accounts for almost the entire production in the country, of many items like clinical thermometers, paper pins, gem clips, measuring cotton tapes, mechanical toys, pencil sharpeners, hair clippers, spindle inserts, glass ampoules, plaster boards, wood wool, chalk crayons, artists' colours, etc. Presently there are over fifty industries in which the bulk of production is contributed by the small-scale sector. The small-scale sector has not only multiplied in the conventional lines, but also taken to sophisticated fields of production.

Would you be interested in starting a small-scale unit? If so, you need first to know the current definition of a small-scale unit.

The concept of a small-scale industry differs from one country to another, depending upon the stage of industrial development. In India, the definition of a small-scale industry has undergone changes from time to time. At present a small-scale industry has been defined as follows: "A small-scale industry is one with an investment in fixed assets in plant and machinery, not exceeding Rs. 10 lakhs at its original purchase price." As per this definition, the criteria of judging the size of an industrial unit is the "value of its plant and machinery". The value of the plant and machinery should be at its original purchase price and not at its prevalent book value or market price. Investment in other fixed assets such as land and building, dyes and moulds, furniture and fixtures, etc. is excluded for the purpose of ascertaining the size of the industrial unit.

### Ancillary Development

An ancillary industry is an industrial undertaking having invest-

oil producing ~~Economic~~ European
Countries ~~community~~ Raghu



ment in fixed assets in plant/machinery not exceeding Rs. 15 lakhs and engaged in (a) the manufacture of plants, components, sub-assemblies, tooling or intermediates or (b) the rendering of services and supplying or rendering or proposing to supply or render 50 per cent of their production or service, as the case may be, to other units for production of other articles. Such an industrial unit should not be a subsidiary or owned or controlled by any other undertaking. All the industrial units falling within the category of small-scale industries or ancillary industries, both the existing as well as the newly started ones, are eligible for various facilities and concessions. These facilities include credit on liberalized terms, allotment of factory sheds or plots in industrial estates or industrial areas, supply of machinery on hire-purchase terms, through NSIC/State Corporations, participation in the Government purchase programme and training or industrial extension services.

## Definition from Banker's Viewpoint

From the viewpoint of bankers, a small-scale industry has been defined and illustrated in the credit guarantee scheme for small industries. Under the scheme, the Government guarantees advances made by bankers and other eligible financial institutions to industrial units in the small-scale sector. There is a separate division in the Reserve Bank of India known as the "Guarantee Organization Division". The reluctance of commercial banks to advance credit to small industry is due to several reasons. Historically, the banks have a rather cautious attitude towards advances to industry and prefer to deal with well-known individuals and groups whose "credit worthiness" is very high. Small units are often promoted by one or two individuals of limited means, who cannot offer the securities which banks demand. Nor are they capable of presenting their projects in the manner banks usually like to receive them—well-written, neatly-bound project reports, the costs of which are disproportionately large.

In tune with its avowed objective of giving all encouragement to the small-scale sector, the Government recently announced certain key changes in bank credit norms. Simplification of the procedures, uniform application of rules and the waiving of margin money are some of the highlights of the new norms issued by the Reserve Bank of India. Banks have now one set of norms for

advances up to Rs. 25,000 and another set for advances between Rs. 25,000 and Rs. 2 lakhs. Banks now do not insist on margin money, especially in the smaller of the small-scale industries. They have now been instructed not to turn down any viable scheme for want of margin money. Further, now entrepreneurs are permitted to introduce equity contribution in stages as and when required in deserving cases. Heretofore, the entrepreneur had to muster the entire equity at the initial stage itself. No longer do banks insist on collateral security as a matter of routine. Where collateral security is obtained, the charge may be, as far as possible, by way of equitable mortgage instead of registered mortgage. In fixing the repayment schedule banks take into account the unit's surplus generating capacity, its break-even points, etc. In order to relieve the interest burden on small-scale sector units, banks collect interest during the holiday period and in easy instalments. In order to facilitate quick decisions, the RBI has recently instructed commercial banks to grant adequate discretionary powers to their respective branch managers in order to ensure that 60 to 80 per cent of the credit decisions are taken at the branch level itself. The RBI has also desired that banks fix a time limit for the disposal of credit applications. For applications up to Rs. 25,000 it has suggested a period of four weeks and for amounts ranging between Rs. 25,000 and Rs. 2 lakhs it should not be more than eight to nine weeks.

Even with a well-developed institutional framework it is observed that amongst the small enterprises, it is the urban-based and comparatively bigger men that tend to take advantage of it and obtain the bulk of the advances made to the small-scale sector. Small firms do not use the established capital market channels as much as larger enterprises do in tapping the investor's funds. This is understandable since the industry-owner is not an "established entrepreneur" and, therefore, does not get much response from the capital market.

In June 1960, the Government announced a scheme for guaranteeing advances to small-scale industries. It came into force from July 1960, on an experimental basis for two years. In the beginning, the scheme was applicable to advances made by approved credit institutions to small-scale industries located in specific districts only. After some experience, the scheme was placed on a permanent footing with effect from January 1, 1963. Amendments have been

oil producing European ~~Community~~ contries



made to the scheme. It was placed on an autonomous footing with effect from February 1, 1970. The credit institutions are required to inform the Guarantee Organization about their advances under the scheme through quarterly returns.

### Definition of Small-Scale Industry under the Scheme

According to the scheme, a small-scale industrial unit has been defined as any industrial undertaking having an investment in plant and machinery of the value not exceeding Rs. 10 lakhs. For computing a unit's investment in plant and machinery, the following items are to be taken into account:

(1) Original cost of plant and machinery.
(2) Cost/original price of plant/machinery taken on a lease or rental basis.
(3) Import duty on machinery, if any, and shipping charges to the extent paid by the owners, custom clearances charges and sales tax.

### Plant/Machinery Should Be Valued at Original Cost

The investment under the head 'Plant/Machinery' should include the original cost of the plant/machinery acquired by the industrial units, irrespective of the manner in which the cost has been presented in its books. Once a unit acquires plant/machinery of the total original cost exceeding Rs. 10 lakhs, it cannot qualify as a small-scale unit even if the cost is subsequently reduced through either disposal of a part of the plant or scrapping or keeping of some machinery idle, due to the closure of a particular line of manufacture.

### Industrial Activities Eligible for Cover

Credit facilities granted to small-scale industrial concerns are eligible for a guarantee under the Scheme, viz. (i) manufacture (ii) processing, (iii) preservation of goods, (iv) mining or quarrying, (v) servicing and repairing of certain types of machinery and (vi) custom service units hiring out and servicing and repairing of agricultural machinery such as trawlers, wheeled

tractors, threshers, combine harvestors, etc. Credit facilities granted to medical practitioners for the purchase of X-ray/electro-cardiogram equipment, microscopes/electro-encephalograph, advance for manufacture of tea by small tea estates having their own factories are eligible for cover.

The smaller the industry, the greater its financial need. Financial institutions find it difficult to assist small industrial units in time by providing adequate financial assistance for want of credit information from independent sources, and due to the anxiety that the same industrial unit may raise finance from more than one institution against the security of the same assets.

The schemes for financing small business enterprises should take into consideration their special characteristics. At the moment the sources of funds for small-scale units, as we have seen in the earlier chapter, include the State Financial Corporations, the Industrial Development Bank of India, the National Small Industries Corporation, commercial and co-operative banks, State Development Corporations, besides loan facilities availed of directly. The small business enterprises have a high mortality rate because they are vulnerable to any crisis—financial, commercial or technical. The promoters being people with poor means, their capacity to survive during difficult or adverse times is poor. A small business enterprise is mainly a "one-man show". It is managed by the proprietor himself, in many cases members of his family assist him, and in a few cases it is organized on a partnership basis.

(1) The small borrower is mainly a production man or a marketing man. He is not skilled in finance planning. The banker assists him in planning/formulating his financial requirements.

(2) One of the main problems confronting the growth of small industry is the lack of adequate finance. This is not peculiar to India but is so in many developing countries. The new enterprise cannot sustain high interest rates and its failure to do so becomes another argument against the credit-worthiness of the small-scale unit. Business finance and personal finance are not separate things for small borrowers. They invariably mix their other commitments

with business commitments. While ascertaining credit requirements this aspect should be looked into sympathetically otherwise the usual complaint that the small men borrow for business but use the funds for personal commitments will continue.

(3) Small borrowers do not maintain suitable books of accounts or other records. They do not find it necessary and convenient. This makes it difficult for bankers to gather the relevant data for arriving at credit decisions or for evaluating them.

(4) The financial problem of a small business enterprise is rarely only financial. Many a time, this may only be a symptom of other weaknesses such as poor planning, outmoded technology, ineffective marketing or bad product pooling and lack of management control. This necessitates a comprehensive programme of financial assistance and management consultancy.

Financing small business enterprises requires a close and personal knowledge of the borrowers or promoters, and of the flexibility in taking credit decisions. The men on the spot should be given suitable powers for sanctioning the advances.

Quite often the proprietary nature of the unit often makes it difficult to attract institutional finance. A small technocrat needs finance right from the start of his business. As the unit grows, more and more money is needed for expansion and diversification. Banks were recently asked to lay special emphasis on financing employment-oriented schemes on soft terms, including a lower rate of interest.

Effective financing of small business enterprises requires an attitudinal change. The attitudes of bankmen towards small borrowers should be sympathetic and educative. The attitude of bankmen towards the proposals of small borrowers should be realistic, flexible and positive.

Financing small business enterprises involves a high establishment cost as per the present banking methods. There is an urgent need for innovations in the prevailing practices and procedures, which are evolved for financing commodities. The system of appraisal, sanction, disbursal, supervision and recovery of credit

for small men requires to be reoriented to suit the limitations of the small borrowers on the one hand and the requirements of the banker on the other hand.

Credit appraisal of small business enterprises is an important but delicate process. There is a general impression that credit appraisal is not helpful in financing a small business enterprise because the information required for appraisal of credit requirements is not available from the borrower. In case it is available, it is not easily comparable with independent means of ascertainment of credit-worthiness and credit requirements on the basis of financial statements such as balance sheet, profit and loss account etc. of a borrowing unit. The credit-worthiness of a small business or enterprise is another area where conventional criteria of net worth, social status, long business standing and reputation may not be available.

Credit appraisal of a small business enterprise can be summed up in five questions:

(1) Is the borrower credit-worthy?
(2) How is the small business enterprise financed at present?
(3) What is required by it?
(4) Can you finance it?
(5) How will you do it?

There is need for a large volume of credit to keep the small industry going. The working capital requirements of a small unit are relatively much larger than those of a large one; in addition there is need for long-term lending to replace machinery and modernize facilities. The rate of obsolescence is high in the small-scale sectors and there is no phased programme of replacement.

Small business enterprises have a poor capital base and large borrowings. Business failures arise from (a) changing consumer demands, vagaries of fashion and fads, technological innovations and advancement, (b) personal factors such as prolonged sickness or untimely death of the borrower, (c) business conditions such as stiff competition, etc. Bankers must be prepared to take financial risks. Credit Guarantee Schemes have been evolved to protect the banker against risks arising from business failures due to unforeseen factors.

The firm may require finance for the following purposes :

(a) For purchasing fixed assets such as machinery, equipment, furniture and fixtures, electrical appliances, tools etc.
(b) For expansion or modernization of its fixed assets.
(c) For maintaining adequate stocks to carry on the production smoothly and/or to cater to the requirements of its customers.
(d) For granting trade credit to its customers, depending on the customs of the trade prevailing in the area.
(e) To pay recurring expenses such as salaries and wages, rent, electric bills, conveyance charges, etc.
(f) To repay the existing business and/or personal debts.

The borrower may be granted a term loan for the purchase of equipment and other fixed assets, and for meeting the working capital requirements. The term loan should be covered by a hypothecation charge over the existing assets as well as the assets to be acquired in future. The term loan may be repayable over a fixed period of time, depending upon the surplus generating capacity of the business enterprise. This period varies from two years to seven years.

In the case of financial assistance to transport operators, professionals and small business enterprises, term loan arrangements are convenient.

## Finance of Small Industry

It has been estimated that in India working capital required for the small-scale sector annually is of the order of Rs. 8,000 million while long-term loans required annually are of the order of Rs. 800 million. To know how to finance a small industry, one has to know what types of loans are required for industries, what the sources of finance are and what are the terms and conditions for getting the loans sanctioned. The credit available to small-scale industry are of two types: (i) Term loans and (ii) Cash credit.

A term loan is meant for fixed assets like land, building, plant equipment, machinery and other capitalized equipment. Its repayment schedule is long and in easy instalments. This type of loan

is generany forwarded by State Financial Corporations and sometimes by the IDBI directly.

As per the recent Government's decision a soft loan scheme has been enforced. The small sector borrowers are classified into two categories :

(a) Seeking credit up to Rs. 25,000.
(b) Seeking credit from Rs. 25,000 to Rs. 2,00,000.

For the first category, there is no insistence on margin money, and finance up to 100 per cent is made available. In the second category, margins do not exceed 20 to 25 per cent. The repayment schedule is liberalised.

The second type of loan termed as Cash Credit is meant for working capital. This is forwarded by nationalized banks.

## Tiny Sector

The Government has declared many incentives for setting up units in the small-scale sector. A noteworthy feature is that while the existing definition of small-scale industry, those industries with investment in plant and machinery up to Rs. 10 lakhs, will remain with the small-scale sector, special attention will be given to the tiny sector. The tiny sector has been defined as consisting of units with investment in machinery and equipment up to Rs. 1 lakh situated in towns with a population of less than 50,000, according to the 1971 census. The classification of a 'tiny sector' for preferential treatment is mainly to reverse the trend where the bulk of the assistance meant for the small-scale is appropriated by better organized small units. The main thrust of the industrial policy is to demarcate the spheres of activity of various sectors—big, medium and tiny—so that each can progress without interference from the others. The Government will not allow the small-scale sector to operate in the field of the tiny sector, so that the field is left clear for the tiny cottage sector.

## Nursery for Entrepreneurs

The small business sector is an excellent nursery for the growth and development of entrepreneurial and managerial talents. Small-

scale industries or establishments are generally owned or managed by proprietary or partnership firms. In some cases, they are managed by private limited companies. This form ot organization is well-suited largely because of its flexibility from bureaucratic administration and the attendant overhead costs. The growth of the small-scale sector therefore opens up unlimited avenues for a large number of entrepreneurs coming from different walks of life, different trades, professions and vocations. In any country, young people are not motivated towards seeking self-employment or completing education. Bright young boys in India prefer to take up jobs in the government sector after passing the Indian Administrative Service or the Foreign Service or qualifying in the private sector as management trainees. Aspirations for entrepreneurship or business management are a recent development.

## The Role of CGCI

The Credit Guarantee Corporation of India Ltd. (CGCI) is a public limited company incorporated in the year 1971. This company is specifically promoted by the RBI with a view to administer a Credit Guarantee Scheme for small borrowers. Its authorized capital should be Rs 10. crores, of which Rs. 2 crores has been issued, subsidized or paid-up. The Scheme is to provide guarantees to a substantial extent in respect of small loans to borrowers in the priority or neglected sectors. For the purpose of this scheme, various categories of small business enterprises have been defined and the following are considered eligible for guarantee/s :

(1) Transport operators;
(2) Traders in goods other than fertilizers or mineral oils;
(3) Traders in fertilizers or mineral oils;
(4) Professionals and self-employed persons;
(5) Small business enterprises;
(6) Small agriculturists and those engaged in allied activities.

*Transport Operators*

Credit facilities to a transport operator shall be eligible for being guaranteed under the scheme if (i) the transport operator

is an individual or an association of not more than six individuals owning and normally operating by himself or themselves, as the case may be, a transport vehicle, including a rickshaw, cart, boat, barge, steamer or launch for carrying passengers or goods for hire; (ii) the said operator does not as far as can be ascertained, already own or operate one or more such vehicles for hire; (iii) the amount of the loan does not exceed a sum of Rs. 1.5 lakhs.

The transport operator/s should be either a proprietor or an association of not more than six individuals. Private or public limited companies are not eligible.

*Salient Features of Small Traders*

Constitution of the borrower: The trader may be an individual, a proprietorship, a partnership firm or a co-operative society. The trader should be wholly or mainly engaged in carrying on trade—buying and selling of goods.

*New Business Firms*

In case credit facilities are granted to a new trading firm which has just started its business or which proposes to start its business, the eligibility should be determined on the basis of the information available and collected while granting the credit limits. If the banker is satisfied about the basis of the borrower's estimates and/or otherwise that the borrower's turnover is not likely to exceed the maximum turnover prescribed, the credit facilities will be eligible for guarantee.

*Professional and Self-employed Persons*

Professional and self-employed persons shall be eligible for being guaranteed credit facilities under the scheme if: they are granted to a medical practitioner, including a dentist, chartered accountant, cost accountant, lawyer or solicitor, engineer, architect, surveyor, construction contractor or management consultant. The facilities are also available to a person trained in any other art or craft, who holds either a degree or diploma from any institution, established and aided or recognized by the Government, or to a person who is considered by the credit institution to be technically qualified or skilled in the field in which he is employed, or to a firm, all the members of which are individuals severally eligible for credit facilities under this clause.

*Part-time Employed Professionals*

It is not necessary that the professional activity should be on a full-time basis. Professionals or technicians who are employed either full-time or part-time and who also conduct professional practice on their own on a part-time basis, are eligible for guarantee under the scheme. Type-writing, circus, orchestra, educational institutions, etc. fall under the professional category and credit facilities to them are eligible for guarantee under the scheme, provided they are owned by persons qualified or skilled in the relative fields. If concessional activity is carried on by more than one person in the form of a partnership it is necessary that all these persons should be qualified and/or skilled in the relative fields. While ascertaining the eligibility of professionals under the guarantee scheme, the banker normally ensures that the professional activities are not illegal, or do not violate any provisions of law.

*Business Enterprises*

Credit facilities to any individual or firm which owns or manages a business enterprise established mainly for the purpose of providing any services shall be eligible for being guaranteed under the scheme if :

(a) the business enterprise has been or is established by an individual or firm;
(b) the original cost price of the equipment used for the purpose does not exceed Rs. 1,50,000.

## How Is the Small Business Enterprise Financed at Present?

To understand this, one need not have elaborate data on the financial position of the borrowing unit for the previous year. One may just ascertain what the present borrowing or credit arrangements of the borrowing unit are. If there are not borrowing arrangements, how has the firm been able to carry on its business?

The firm may require finance for the following purposes :

(a) For purchasing fixed assets such as machinery, equipment, furniture and fixtures, electrical appliances, tools etc.

(b) For expansion or modernization of its existing fixed assets.
(c) For maintaining adequate stocks to carry on the production smoothly and/or to cater to the requirements of its customers.
(d) For granting trade credit to its customers, depending on the custom of the trade prevailing in the area.
(e) To pay recurring expenses such as salaries and wages, rent, electric bills, conveyance charges etc. during the period till the sale proceeds are realized.
(f) To repay the existing business and/or personal debts.

Banks have formulated various credit schemes for financing different categories of small borrowers. The bank may keep in mind the following aspect while deciding whether it is worthwhile to grant credit facility or not.

(a) Prospects of generation of employment;
(b) Utilization of local resources;
(c) Local needs and the absence of adequate facilities to meet them;
(d) Whether the borrower has his full stake in the business.

The borrower is then granted a term loan for the purchase of equipment and other fixed assets for meeting working capital requirements. The term loan should be covered by a hypothecation charge over the existing assets as well as the assets to be acquired in future. The term loan may be repayable over a fixed period of time, depending upon the surplus generating capacity of the business enterprise. The instalments may be fixed on the basis of profitability estimates and the time taken in receiving sale proceeds.

In the case of financial assistance to transport operators, professionals and small business enterprises, the term loan arrangement is convenient. In case of traders, cash credit arrangement is convenient. Since the Credit Guarantee Corporation pays only one claim on account of the credit facility or credit facilities extended to a borrower in any one of the specified categories, it is advisable to grant only one type of "Composite Credit Facility". The Credit Guarantee Scheme for small-scale industries has left it to the discretion of banks as to whether guarantees of acceptable third parties should be asked for or not.

## Incentives for Technical Entrepreneurs

If you are a technician, the sky is the limit as far as assistance is concerned. Engineers and technicians are provided with many incentives like investment subsidy and seed money assistance, term loans and cash credit at reduced margin and interest rate, and interest subsidy upto Rs. 20,000 or difference between actual interest paid and the interest at the rate of 7 per cent p.a. for 3 to 5 years.

Technical entrepreneurs were considered suitable and fit to adopt modern science and sophisticated technology to bring about rapid industrial development. With this objective "Self Employment Schemes for Engineers and Diploma-Holders" were started. A number of facilities, incentives, priorities, training courses are being given to attract technical entrepreneurs.

Incentives available for technical entrepreneurs may be summarized in 3 categories :

1. Incentives by State Governments
2. Incentives by Financial Institutions
3. Incentives by Central Government.

### 1. *Incentives by State Governments*

As a matter of fact incentives provided by State Governments to the technical entrepreneurs may be called as indirect. These incentives are priority in allotment of sheds and plots in industrial estates or areas, motivational training facilities, preferential allotment of raw materials, relaxation in power connection security, and seed money and margin money assistance. Seed money and margin money loan is granted up to 15 per cent of fixed assets.

### 2 *Incentives by Financial Institutions*

The financial institutions viz. State Financial Corporation, and nationalized banks, forward loans to technical entrepreneurs on reduced security margin and reduced rate of interest. Reduction in security margin is up to 15 per cent of the fixed capital. Thus any technical entrepreneur who gets seed money at 15 per cent of fixed assets, and gets sanction loan by a SFC, upto 85 per cent of fixed assets, will get effectively, 100 per cent finance.

### 3. *Incentives by the Central Government*

Actually all incentives offered by the Central Government are channelized through the State Governments. The most important and favourable incentive for technocrats is interest subsidy, which is applicable to only those technical entrepreneurs who have taken training under Entrepreneurship Development Programmes conducted by the Government of India-recognized organizations. This interest subsidy is equal to the difference between interest rate of 7 per cent p.a. and the normal rate of interest charged on the loans advanced by financial institutions, provided the total amount of subsidy in any case does not exceed Rs. 20,000 p.a. This interest subsidy is paid for 3 years in general and 5 years for those who start SSI in 246 backward districts.

Overall incentives for technical entrepreneurs may be substantiated as follows:

(i) Seed money assistance/margin money assistance/capital investment cum employment subsidy — from 10 per cent to 15 per cent of mortgaged security, as per locality.
(ii) Reduction in security margin by financing institutions — 10 per cent to 15 per cent.
(iii) Interest subsidy upto Rs. 20.000 or difference between interest charged and 7 per cent p.a.
(iv) Training facility under "Entrepreneurship Development Programme" organized by the SISIs or the State Directorate of Industries with a monthly stipend of Rs. 250 to Rs. 400 p.m.
(v) Assistance in establishing Agro-Service Centres, with investment ranging from Rs. 50,000 to Rs. 2 lakhs for repair or agricultural machinery and tools.
(vi) Offers by Indian Oil Corporations for dealerships for retail outlets and for kerosene oil, light diesel oil, indane gas etc.
(vii) The ceiling of contribution towards capital investment by technocrats for setting up SSIs is 15 per cent of the investment.

#### *Procedures for Claiming Interest Subsidy*

The rate of interest on any loan advanced by financial institutions to an engineer-entrepreneur under this subsidy will be the normal rate of interest. The engineer-entrepreneur however can claim

the difference between the normal rate of interest and 7 per cent from the State Government concerned. The State Government on receipt of such claims may get those verified by the financial institutions and thereafter approach the Government of India for reimbursement. The claims may be preferred by the State Government twice every year.

Thus, you will appreciate that numerous agencies and the schemes are in operation to assist the small-scale entrepreneurs, professionals, traders and technical entrepreneurs. In fact, there are as many types of assistance as there are entrepreneurs willing to start a business.

*Chapter 11*

# THE ANATOMY OF A WRITTEN PLAN

IN THE LAST chapter we touched upon the various sources of finance available to the small-scale entrepreneur. But is arranging finance (for a business enterprise) enough? Does availability of finance ensure success? According to me, it is not difficult these days for you to arrange finance, with so many willing to come forward to assist you and promote your business interests. Finance, being borrowed either from private or institutional sources, needs careful handling. All this points to one thing. The small entrepreneur must essentially learn to manage the available finance for ensuring a steady return on investments.

You can start your enterprise but you can achieve success only if you plan your action. According to the famous economist, Prof. Robbins, "To plan is to act with purpose to choose; and the choice is the essence of economic activity." It is rightly said that independent small-scale business is not the place for the immature, the weak, the indolent, or those who take things easy. It is the place for those who can plan, organize, direct, co-ordinate and control effectively with commitment to get things done in a planned manner. Most of the small units are either owned or managed by a single person or by two or three partners. They have to look after all functions right from procurement of raw materials to collection of money. A lot of their time is consumed by non-productive work like attending to numerous legal and financial enquiries and receiving inspectors at their factories. You will agree that this can be done successfully only if entrepreneurs plan their action. Failing to plan is planning to fail. Being systematic is essential for success. In a rapidly changing economic and social environment a small-scale man has to anticipate and adjust promptly to significant shifts in customer demands, competitors' action and public expectations.

Planning is the tool for piloting a course for your small firm, a logical progression from starting point to ending point. Henry Fayol said, "The plan of action is at one and the same time the

result envisaged, the line of action to be followed, stages to go through and methods to use. It is a kind of future picture wherein proximate events are outlined with some distinct news while remote events appear progressively less distinct and it entails the running of the business as foreseen and provide against over a definite period." This is indeed true and valid even today.

In the last chapter we have seen that the financial problem of a small business enterprise is rarely only financial. Many a times, this may only be a symptom of one main weakness—lack of proper planning. Perhaps the best course for you to do this is to put the problem on paper. Quantifying wherever it is possible and by expressing the problem as some sort of a model: A flow chart, systematic diagram, a graph, a layout, a mathematical layout. In the small-scale sector the fundamental problem is that of weathering the uncertainties of the market and the irregularities of payment by the large buyers. Is success in such a case possible without a written plan? Leon Wortman, with his experience of 25 years as a lecturer, writer and consultant on business affairs, says that one should not think of launching a new business, large or small, without a business plan. The business plan will ensure success in four important ways because :

(1) A written plan is like a path for you to follow. A plan with goals, targets, bench marks, timetables, strategies, tactics, programmes, policies, guides your business optimally through periods of growth; safeguards its survival during risk periods and recessions, improves your recognition of opportunities, and acts as a true compass when visibility is poor.

(2) A plan enables your bankers and creditors to understand and appreciate your potential for success. Reading or listening to the details of your plan provides them with useful data and a ready insight into your situation when their aid is needed.

(3) A plan serves as a definitive communications tool when you need to orient personnel and suppliers about your operations, specific goals, and realistic ambitions.

(4) A plan helps you develop your own managerial skills. It serves superbly as an organized approach to defining your personal assets and liabilities, describing competitive and

marketing conditions, financial facilities, needs, staff and payroll requirements; and predicting problems and solutions.

Seldom can any business grow without a plan. Management is a complex affair more so in the case of a small-scale entrepreneur. In every country management is becoming a tough and highly competitive activity. If a business is to become successful and profitable, and remain so for a large number of years, growing and developing in time, then it must be a planned affair. Your resources as a small man are limited and have to be utilised in the best possible manner to achieve optimum results. Is this ever possible without a written plan? A well-developed plan helps you know what can happen, prepares you so that you can minimize risks and maximize opportunity. A plan, therefore, bridges the gap that lies between a wish and attainment.

"A nation-wide survey in America conducted only a few years ago revealed some startling information about the importance of a written plan. It was found that only three per cent of the people interviewed had any definite, concrete and written plans for achievement in life. Another ten per cent had a fairly good notion of their aims and objectives. Sixty per cent had more or less given some thought to it, but only in the financial area of their future. The balance of twenty-seven per cent of the people, had never given any serious thought to planning their future in any way. It is not surprising then to see that in each one hundred of these same people only three per cent were highly successful, ten per cent were moderately well-off, sixty per cent were people of modest means, and the remainder were just barely getting along with the help of charity. In fact, some were third-generation welfare recipients. What the survey most startlingly revealed was that the second group, the ten per cent, had the same qualifications as the top three per cent. These people had equal education, talent and intelligence. They had ambitions and knew where they were going. The only reasonable difference between them lay in the fact that the top three per cent had reduced their plan to writing, while the next ten per cent had not. And of infinitely greater significance is the fact that the top three per cent were out-performing the next group at ratios of as much as ten to one and better."[6]

[6] From *The Dynamics of Personal Motivation* by Paul J. Meyer. © Success Motivation Institute, Inc., 1968

## The Values of a Written Plan

In his best selling programme, "Dynamics of Personal Motivation," Paul J. Meyer vividly explains the values of a written plan point by point as follows:

(1) "We are continuously bombarded from all sides by demands on our time and attention. Today's businessman, of whatever profession, is a man in hurry, and what may be crystal clear today can easily become vague in the rush and urgency of tomorrow's affairs. Unless we write down our plan and objectives, they become lost in the shuffle and excitement of new problems, new challenges, and new decisions. A written plan tends to keep us on course, on the track to progress, and acts as 'interference blinders' to eliminate outside distraction and interruptions.

(2) "A written plan also serves as a yardstick of progress. The plan tells us how far we have come. Clinical studies into human motivation are greatest when there is feedback by which to measure accomplishment. Without a written plan and deadlines, our memories become hazy, the yardstick is blurred, and motivation is lost.

(3) "Writing crystallizes thought, and thought motivates action. The mere fact that you put your plan to paper lends clarity to the purpose, and dedication to the achievement. You sort of put yourself on the hook to perform, to make the commitment to come to pass.

(4) "A written plan serves as a reference and reminder of your objectives. Each time you review them, you get a figurative 'kick in the pants' to keep working towards their achievement.

(5) "A written plan conserves time and energy because you know at all times where you are going and what should you do next.

(6) "Reducing your goals to writing assures compatibility of objectiveness in all areas of your life because, once you spread them out in writing before you, any conflicts between goals and values will be apparent. You are able to assign priorities and eliminate frustrations before they cause serious damage.

(7) "The process of committing your plans to writing stimulates visualization and helps form the habit of visualizing which, in itself, can lend creativity to the successful completion of all you undertake.

(8) "Finally, there is a universal law of reciprocity : 'we tend to draw to ourselves that which we set out for ourselves'. No man can attract to himself what his thought repels. We become precisely what we imagine ourselves to be. When our goals are clear and vivid, when we have written them down, they act as a magnetic force to draw us to them. In plain words, we gain from life the exact rewards we plan for and expect to get."

Therefore, I personally believe, that the only goals we cannot reach are those which we are unwilling to set down in writing. Take for example, a person seeking capital; whether it is equity or debt financing, he should go in a planned way to knock at all the doors where finances are available and perhaps keep on talking to more and more people till success is the inevitable result of his efforts. Sometimes it may be required to negotiate with a dozen or more sources before success is achieved. I do recall my first trade experience, my first business loan at a local Bank. I wanted to borrow Rs. 5000/-. I was only twenty-two years old at that time. I approached four banks in the town where I lived, and was turned down cold. I finally went to work, and put my plan in writing. The last bank I approached granted me a loan and convinced me I should increase it to Rs. 9000/-.

### Capital Source

You will realize that enabling the small entrepreneur to get adequate finance is only a part of the whole problem. Once the necessary finance or credit is made available, the real challenge lies in the efficient planning and management of finance and optimum use of capital at the lowest possible cost. Many a small-scale entrepreneur starts with limited funds, meets with raw materials or production difficulties and finds it difficult to meet their needs for additional capital. They have to market their products on a consignment basis, which means no cash and more stock-piling till the products are established in the market. The heavy cost of borrow-

ing eats away his low margin and he finds it difficult to survive and grow. All this clearly indicates that planning is as necessary in a small-scale industry as it is in a large one.

Any reliable capital source will be more favourable towards financing if a carefully drawn, written plan is presented.

Here are the facts with basic six questions Ted Nicholas had analysed in his report, "How And Where To Raise Venture Capital To Finance A Business." He feels these questions should be well answered to know the mind of any capital source :

(1) How much capital is needed?
(2) Should the capital be in the form of debt financing or equity financing, or a combination of both?
(3) To what specific uses will the capital be put?
(4) If it is debt financing, how will the capital be paid back?
(5) If it is equity financing, will the stock purchased in the new corporation increase in value and to what estimated extent?
(6) What security, if any, will be used to assure repayment of the initial capital?

Certainly, it is your job to answer these questions carefully in your written plan. Look at the business project from the financier's point of view. Provide the prospective money source, a complete, itemized break-up of the uses to which the new capital will be put. List separately expenditures for equipment, advertising, packaging, obtaining qualified personnel, and services, working capital, etc.

Chapter 12

# ASSISTANCE AT YOUR DOORSTEP

IN AN ATTEMPT to re-orient the process of industrialization in the country, the Government came out with an industrial policy statement. Among the several major measures proposed for achieving its objectives, the Government announced the setting up of District Industries Centres with a view to taking away the focal point of development for small-scale and cottage industries from the big cities and State capitals to the district headquarters. The District Industries Centre in each district headquarters will be headed by a General Manager and seven functional Managers each having responsibility of Economic Investigation, Machinery and Equipment, Research, Extension and Training, Raw Materials, Project Appraisals, Liaison with Banks and Credits. It will try to meet all the requirements of small-scale units and village industries—the objective being to make available all services and support required by these industries under one roof. Special wings are set up at these centres to look after the requirements of cottage industries. In their proper perspective the DICs have been conceived with a certain objective — it being that industries must move to rural areas, they must become labour-intensive and must relate to the needs of the people.

The objective, organization and functions of the DICs are discussed below:

## WHAT IS A DISTRICT INDUSTRIES CENTRE (DIC)?

A District Industries Centre will be an institution at the District Level which will provide all the services and facilities to the entrepreneurs at one place for setting up small and village industries. The Centre will provide all services and support required by small entrepreneurs including identification of a suitable scheme, preparation of feasibility report, arrangements for supply of machinery and equipment, provision of raw materials, credit facilities and inputs for marketing and extension services.

The small entrepreneur requires various types of assistance right from the selection of an item for manufacture, inputs like credit, raw materials, power, land and building etc. The District Industries Centre would provide all these facilities to the entrepreneur under one roof at the District and sub-district levels. At present, an entrepreneur has to run to several agencies many of them away from the District for getting these facilities. He has to approach various authorities for this purpose. Under the new scheme of the DIC, the entrepreneur will get all such assistance from one agency. Suitable powers will be delegated by the several departments of the State Governments to the DIC so that the entrepreneur gets all the assistance from the DIC. The DICs are envisaged to establish close liaison with the development blocks on the one hand and the specialized institutions concerned with the development of small-scale and cottage industries on the other. Institutions like the Khadi and Village Industries Commission and Directorate of Handloom and Handicrafts, which are involved in grass-root activities, will be required to integrate their functions with the DIC set-up. The existing schemes like capital subsidy, transport subsidy, etc. will be implemented through the DICs. To provide a suitable arrangement for effective co-ordination between the DICs and the various state government departments and undertakings, the constitution of district advisory committees has been proposed. These committees will be headed by the district collectors and consist of the district level officers of other departments, representatives of the semi-government and local bodies, etc. To overcome the inadequacy of marketing intelligence and marketing of products, these centres will give special attention to marketing intelligence and surveys, testing facilities, quality control and standardization of products.

It has been decided to cover ultimately all the districts of the country under this programme of the DIC. Therefore, each district will have one DIC during the course of the next two years. In 1978-79, more than 200 such DICs will start functioning in the country.

### *The Organizational Set-up of DIC*

The DIC will be headed by a general manager assisted by seven functional managers and other supporting staff. These seven functional managers would deal with the following subjects:

(1) Economic investigation
(2) Machinery and equipment
(3) Research, extension and training
(4) Raw materials
(5) Credit
(6) Marketing
(7) Cottage industries

The above staff will be supplemented by functionaries of other departments and organizations who will work as members of the team at the DICs.

*The Functions of the DIC*

To survey the existing, traditional and new industries, raw materials and human resources. To identify schemes and give a market forecast for different items and to prepare sample techno-economic feasibility reports and to offer investment advice to entrepreneurs. In operational terms, the new policy envisages appointment of experts in areas like village industries, marketing, raw materials, training, credit etc. for each district, clothing of the proposed DICs with some regulatory and sanctioning authority and arrangements of supply of raw materials, up-dating of skills and marketing of products at district headquarters.

To assess the requirements of machinery and equipment for various types of small scale, tiny and village industries, to assess sources of availability of machinery and equipment for different machines, to advise entrepreneurs to liaise with Research Institutions regarding R & D, arrange machinery on hire-purchase basis.

To arrange for training courses for entrepreneurs of small and tiny units and liaise with Small Industries Service Institute, SIET Institute and other institutions. To keep abreast of research and development in selected product lines and quality control methods.

To ascertain raw material requirements of various units, their sources and prices and to arrange bulk purchases of raw materials and their distribution to the entrepreneurs.

To liaise with lead banks and other financial institutions, apprise applications, monitor flow of industrial credit in the districts and to arrange for financial assistance to the entrepreneurs.

To organize marketing outlets, to liaise with Government procurement agencies, convey market intelligence to the entre-

preneurs, organize market surveys, market development programmes etc.

To give particular attention to development of Khadi & Village Industries and other Cottage Industries, to liaise with State Khadi Board, and organize rural artisans programme of training.

*The Functions of the General Manager and Managers of the DIC*

Each DIC will be headed by a General Manager who would hold a key position and would be responsible for the overall co-ordination and development of industries in the District. The main functions and tasks assigned to the various functional Managers under the DIC would be as follows:

1. **Manager (Economic Investigation)**
(a) To survey the potential for various types of industries in the district;
(b) To survey raw materials and human skills in the district;
(c) To identify product lines and prepare sample techno-economic feasibility studies;
(d) To collect available data;
(e) To offer investment advice to entrepreneurs.

2. **Manager (Machinery and Equipment)**
(a) To assess requirements of machinery and equipment for various types of small-scale, tiny and village industries;
(b) To ascertain sources of machinery and equipment in the country;
(c) To keep lists of suppliers and price lists to advise entrepreneurs;
(d) To help in placing orders;
(e) To liaise with research institutions regarding R & D development in machinery and equipment;
(f) To assess needs for simple machines in the rural areas.

3. **Manager (Research, Extension and Training)**
(a) To keep abreast of R & D in select product lines and quality control methods;
(b) To ascertain problems of entrepreneurs in quality of raw materials, production methods and processes;
(c) To arrange for training courses in production managements of small and tiny units;

4. **Manager (Raw Materials)**
 (a) To ascertain raw materials requirements of various units, their sources and prices;
 (b) To arrange for cooperative or bulk purchases of raw materials.

5. **Manager (Credit)**
 (a) To explain various credit schemes to entrepreneurs;
 (b) To help in preparing application forms to financial institutions;
 (c) To liaise with leading banks and other institutions;
 (d) To help in appraisal of applications;
 (e) To monitor flow of industrial credit in the district.

6. **Manager (Marketing)**
 (a) To organize market surveys, market development programmes;
 (b) To organize marketing outlets;
 (c) To liaise with Government procurement agencies;
 (d) To convey market intelligence to entrepreneurs.

7. **Manager (Cottage Industries)**
 (a) To pay special attention to the development of cottage industries with special reference to Khadi & Village Industries, Handloom and Handicrafts;
 (b) To liaise with the State Khadi Board and other State Government agencies involved in this work;
 (c) To organize rural artisans training.

*The Difference between District Industries Centre and Rural Industries Project*

The DIC will look after the needs of the industries in the district as a whole and will provide all inputs and act as a promotional as well as implementing agency. The loan components of Rural Industries Project and Rural Artisans Programme are being merged into DIC and towns whose population is below 25,000 will get through the DIC all the assistance which is at present available under the Rural Industries Project/Rural Artisans Programme. Besides, under the DIC set up, adequate authority would be delegated to the General Manager/Managers so that all the inputs are provided to the entrepreneurs on the spot without referring the matter to the State level or the Centre level.

### *How Will the DICs Be Funded?*

The DIC is a centrally-sponsored scheme of the Government of India but would be implemented by the State Government. The Government of India will provide a non-recurring grant of 75 per cent not exceeding Rs. 3.75 lakhs. The main responsibility of implementing the scheme and making it successful would rest upon the State Government as all the functionaries in the DIC would work under the control and supervision of the State Government.

All activities of the concerned agencies like Handloom, Handicrafts, Coir Board, Silk, KVIC etc. would be integrated with the DIC. The General Manager of the DIC will co-ordinate with all the agencies for operating these programmes in his District.

A DIC will be located in a district at a suitable place in a separate building with a floor space area of around 500 sq. meters where all the functionaries of the DIC would be placed including the offices of the concerned organizations so that the entrepreneur has all his problems solved under one roof.

### *Who Will Monitor the Programme of DIC?*

The DIC Programme will be monitored at the District level, State level, Regional level and at the Central level. This is being done so that it is ensured that the DICs work effectively to meet the objective for which they have been set up. A Central Co-ordination Committee has been set up with the Minister of Industry as its Chairman and the Development Commissioner (Small Scale Industries), Ministry of Industry as its Member Secretary. Similarly, State level Committees have been set up with the Chief Minister (or Minister of Industries) as the Chairman. The District Advisory Committees will have District Collector as the Chairman and will provide guidance to the DICs on various aspects of development. The entire country has been divided into five regions, as given below :

| | | |
|---|---|---|
| Northern Region | : | **Jammu & Kashmir, Punjab, Haryana, Himachal Pradesh, Delhi and Chandigarh.** |
| Eastern Region | : | **West Bengal, Bihar, Orissa, Assam, Arunachal Pradesh, Manipur, Meghalaya, Mizoram, Nagaland, Tripura, Sikkim and Andaman and Nicobar Islands.** |

| | | |
|---|---|---|
| Western Region | : | Gujarat, Maharashtra, Dadra and Nagar Haveli, Goa. |
| Central Region | : | Madhya Pradesh, Rajasthan, Uttar Pradesh. |
| Southern Region | : | Andhra Pradesh, Karnataka, Kerala, Tamil Nadu, Pondicherry, Lakshadweep. |

The DIC will have a very close link with other State Level organizations like State Financial Corporation/State Small Industries Development Corporation. These State Level organizations will work in close cooperation with the DIC and provide all necessary assistance to the General Manager and Managers of the DIC so that all the inputs of those organizations are also made available to the entrepreneurs under the DIC. The DIC approach is to help small industries and rural artisans in the areas. So far, various facilities under the development of small industries programme have benefited mainly the more well-to-do entrepreneurs who have set up the manufacture of sophisticated items in the small scale sector. The DIC approach would be also to help the weaker sections of the community in the rural and backward areas so that they get all the needed assistance to set up village industries to improve their economic condition.

The government has also designed some special programmes of assistance like the margin money scheme for the development of tiny units in rural areas with a population below 50,000. The intention is to meaningfully co-ordinate the activities in the decentralized sector, particularly in the field of khadi and village industries, handlooms and handicrafts etc. by matching the employment generation programme with local resources and skills in the villages. This will be done through a wide-based institutional coverage of inputs such as raw materials, technical assistance, training, design facilities and marketing support.

Even in the DICs there is a separate functionary for the development of rural industries. This functionary—the manager—for rural, cottage industries and Khadi and Village Industries will be recruited from the cadres of KVI, handlooms and handicraft, according to the importance of the particular activities in the district concerned.

The rural industries project programme has been made an integral part of the DICs and rural industrialization approach would

not only continue in the DIC set-up but would be given added impetus. While the headquarters of DICs will be set up at the district headquarters, their activities will cover the entire district.

The arrangements for monitoring and evaluation of the DIC programmes and progress would also take into account the performance of the DIC in respect of rural industrialization, dispersal of industries in rural areas, employment generation and raising of the purchasing power of the self-employed entrepreneurs and workers in small-scale, village and cottage industries.

*Chapter 13*

# BACK TO THE "BACKWARD AREAS"

THE ECONOMIC development of the so-called "backward areas" is of crucial importance, in view of the fact that about 30 per cent of our population, having the lowest standard of living, dwell mainly in these areas. About half of the total districts of our country are declared industrially backward. More than 80 per cent of the total area of the industrially well-developed State of West Bengal is marked as industrially backward. The corresponding percentages for the other industrially well-developed States of Maharashtra, Haryana and Punjab are 54, 55 and 38 respectively. Of the 19 districts of Gujarat and 14 districts of Tamil Nadu, 10 and 8 districts respectively have been classified as backward. These percentages suggest that, looking to the geographical coverage, the major part of our country is industrially backward and only a small part is industrially well-developed. For the speedy dispersal of small industries to rural and industrially backward areas, the Government is providing attractive incentives. In all 246 districts have been declared industrially backward. Out of these, 101 districts and areas have been categorized as specially backward for providing additional incentives.

In pursuance of the decisions of the Committee of the National Development Council, the Planning Commission evolved the following criteria for identification of industrially backward districts :

(1) Per capita food grains/commercial crops production, depending on whether the district is predominantly a producer of food grains or cash crops;
(2) Ratio of population to agricultural workers;
(3) Per capita industrial output (gross);
(4) Number of factory employees per lakh of population or, alternatively, number of persons engaged in secondary and tertiary activities per lakh of population;
(5) Per capita consumption of electricity; and

(6) Length of surfaced roads in relation to population or railways mileage in relation to population.

The Planning Commission also advised that only those districts with indices well below the State averages in respect of the above indicators be selected as backward. But in most States all districts and areas with indices below the State average have been selected to qualify for concessional finance, except in the case of a few districts and areas from the States of Assam, Himachal Pradesh, Jammu and Kashmir, West Bengal and Madhya Pradesh where some areas above the State average have also been selected as a special case. While adopting the above criteria for the selection of backward districts, some State Governments have made some modifications based on their judgement of the local circumstances. On the above basis, 246 districts and Union Territories (except Chandigarh and Delhi) were selected by the Planning Commission as backward districts which could be eligible for concessional finance. It may be noted that of these, 92 industrially backward districts selected to qualify for the concessional finance are coterminus with the Rural Industries Projects for intensive development of small industries.

With a view to facilitating transfer of industrial units from the congested areas, particularly in and around the metropolitan cities, the Government of India has recently decided that if an enterprise wishes to shift its entire manufacturing activity from a forward to a backward area within the same State, there will be no need to obtain prior permission from it for such a change of location, provided permission from the State government is obtained in advance. Under the new industrial policy, it has been decided that no more licenses will be issued for setting up new industrial units within certain limits of the metropolitan cities having a population of more than 50,00,000 persons as per the 1971 census. The Government and the financial institutions have been asked to deny support in these areas to those industries which do not require an industrial license but in whose case the investment is large.

## 1. The Central Subsidy Scheme

Under this scheme, financial assistance is offered by the Government of India in the form of an outright grant or subsidy to new industrial units to be set up, and to the existing industrial units

undertaking substantial expansion in specified backward areas. The Government of India has selected specific backward districts and areas for this purpose.

*Applicability*

(A) The Scheme is applicable to new industrial units for the setting up of which 'effective steps' have been taken, on or after October 1970. In case of the existing industrial units, undertaking substantial expansion, 'effective steps' should have been taken up, on or after October 1, 1970. Effective steps for this purpose means one or more of the following :—

(a) a substantial part of the capital issued for the industrial unit has been paid up;
(b) a substantial part of the factory building of the industrial unit has been constructed;
(c) a firm order has been placed for a substantial part of the plant and machinery required for the industrial unit.

(B) The Scheme is applicable to new industrial units whose total fixed capital investment does not exceed Rs. 100 lakhs. Cases entailing a total fixed capital investment exceeding Rs. 100 lakhs are considered on a selective basis.

(C) An existing unit is eligible for the financial assistance if it goes in for a 'Substantial Expansion'. 'Substantial Expansion' for this purpose means that the industrial unit increases the value of fixed capital investment by not less than 25 per cent for expansion or modernization etc.

*Procedure*

The eligible industrial units are required to be registered by the Directorate of the State Government concerned. Prior to taking the effective steps for setting up a new unit, or for undertaking substantial expansion, the industrial unit concerned should indicate its assessment of the total fixed capital, or of the total additional fixed capital likely to be invested by them in the prescribed application form. Industrial units financed solely from their own sources, have to apply through the Directorate of Industries of the concerned State Government. Industrial units financed by state financial corporations/state industrial development corporations/banks, solely or jointly, have to apply to the state/corporation/state

industrial development corporation nominated by the state government as its agents. Each state government or union territory administration has appointed a committee of officials to consider the applications for sanctioning financial assistance under this scheme. The financial assistance is disbursed by the directorate of industries or state financial corporation or state industrial development corporation in a lump sum, or in instalments, depending upon the progress assessed on the basis of the documentary evidence regarding investment made in fixed assets.

### 2. Union Transport Subsidy Scheme

This scheme came into force with effect from July 15, 1971. It is applicable to all industrial units (barring plantations, breweries and power generating units), both in the public and private sector, irrespective of their size, in the states of Jammu & Kashmir, Assam, Meghalaya, Nagaland, Manipur, Tripura and the Union Territory of Arunachal Pradesh. The objective of the scheme is to subsidize the cost of transport of raw materials and finished goods to and from the above selected areas. Freight rates for movement by road are determined on the basis of transport rates fixed by the State Government/Union Territory concerned, from time to time, or the actual freight paid, whichever is lower. Cost of loading or unloading, and other handling charges from the railway station to the site of the industrial units are not taken into account for the purpose of determining the transport costs. The subsidy is to the extent of 50 per cent of the cost of the transport of both raw materials and finished goods in the case of new industrial units. In the case of existing units, the subsidy is restricted to 50 per cent of the transport cost of the additional raw materials required and finished goods produced as a result of substantial expansion or diversification of industries. The States and the Union territories concerned are entrusted with the administration of this scheme, and require pre-registration of the industrial units eligible for the subsidies. At the time of registration, these authorities fix and indicate the capacity of such units and lay down a detailed procedure. At the Central Government level, the Ministry of Industrial Development reviews the arrangements made by the Directorate of Industries, and suggest modifications in the procedure for scrutinizing the schemes, payment of transport subsidy, etc.

## State Governments

Almost all the State Governments have offered attractive incentives which include :

(1) Interest-free tax loans amounting to 25 per cent to 35 per cent of the fixed assets created, or central and state sales tax liability upto a maximum of 3 to 5 years, whichever is lower, repayable within 6 to 10 years from the date of production,
(2) Relief in octroi duty, water royalties and non-agricultural assessment for 6 to 9 years from the date of commencement of production,
(3) Relief in electricity, tariff for 5 to 9 years from the date of commencement of production,
(4) Contribution up to 75 per cent towards the cost of preparation of a feasibility study done through an approved agency in the form of share capital in case of a limited company, or in the form of an unsecured loan for five years in case the industrial unit is not a limited company,
(5) Contribution to the extent of 10 per cent of the share of eligible industrial units (which is 25 per cent), towards the cost of industrial housing,
(6) Preferential treatment for a period of six years from the date of production in the State Government's purchase programme.
(7) Assistance in the technical training of personnel.

## National Financial Institutions

The national financial institutions such as the IDBI, the IFCI, and the ICICI have evolved schemes under which soft loans on concessional terms are offered to industrial units for new establishments, or for carrying out substantial expansion of medium and small-scale industrial units in the industrially backward districts or areas.

### *IDBI*

The IDBI introduced in 1970, two schemes of concessional assistance—the first relating to direct financial assistance on con-

cessional terms, for setting up projects with project cost of not more than Rs. one crore, and the second relating to concessional refinance to SFCs and banks, for eligible loans upto Rs. 30 lakhs to small and medium-sized projects.

*Direct Financial Assistance*

All new projects, as well as existing projects, having an expansion scheme are eligible for concessional assistance, irrespective of the project cost. The scheme provides for a maximum rupee loan assistance upto Rs. 2.00 crores, in participation with the IFCI and the ICICI. The assistance in excess of Rs. 1.00 crore would be at normal terms. The concessional terms include lower rate of interest ($8\frac{1}{2}$ per cent as against 12 per cent), longer period of initial moratorium in the repayment of loans (5 years against 2-3 years), longer amortisation period (15-20 years as against 10-15 years). As regards promoters' contribution and margin requirements, etc. the IDBI follows a liberal and flexible approach.

*Concessional Refinance Assistance*

Concessional refinance is available to the full extent for all eligible loans of SFCs and banks upto Rs. 30 lakhs to new small and medium-sized projects, provided the paid-up capital and the reserves of the recipient unit does not exceed Rs. 100 lakhs. Existing units with an expansion scheme are also eligible, provided (i) paid-up capital and reserves after the expansion does not exceed Rs. 100 lakhs; and (ii) that the increase in the value of fixed capital under the expansion scheme is not less than 25 per cent of fixed capital of the existing unit before expansion. The concessional rate of interest at which refinance is available is $5\frac{1}{2}$ per cent (as against normal rate of $8\frac{1}{2}$ per cent), provided the lending rate does not exceed 9.00 per cent (as against normal rate of 12 per cent). Besides the above two schemes of financial assistance, the IDBI subscribes relatively heavily to the risk capital, and undertakes underwriting at lower commission charges, to projects in the backward areas.

*The IFCI and the ICICI*

The IFCI and the ICICI extend concessional financial assistance on soft and liberal terms, directly to the eligible industrial units

located in the backward areas in participation with the IDBI. Besides direct financial assistance, they also participate with the IDBI in underwriting (at lower commission charges), and in subscribing to the risk capital of the eligible industrial units. With the best possible offer of incentives and financial assistance from the Central Government, State Governments and Financial Institutions, it is difficult to attract industries to the backward areas, mainly because of the negative factors operating there, and operating in the process of setting up industries, more than offset the incentives and benefits offered. Lack of finance is not the only factor preventing the growth of industries in the backward areas. What is perhaps required is identification of specific projects which can take roots in the backward areas, preparation of detailed project profiles for various types of industries in the region, identification of entrepreneurs from the local areas for setting up the industrial units, and inducement to entrepreneurs from other regions for setting up the industrial projects in the backward areas. This should be coupled with the creation of infrastructural facilities and concrete plans for the development of specific centres in the area as growth centres.

The role of the Industrial Reconstruction Corporation of India Ltd. is confined to the weaker section of the industrial sector and its primary objective is to reactivate the productive capacities of sick and closed industrial concerns. The Unit Trust of India provided support either alone or along with other term-lending institutions to priority and core sector projects and those located in backward areas. The assistance is in various forms like underwriting of shares, debentures and bonds, direct subscription to public issues, subscription to privately placed debentures and bridging finance.

*Surveys of Backward Areas*

Resource endowments, terrain, quality of human factor, infrastructure facilities, legacy of history—all these factors affect the industrial performance of a region. The first important step for developing appropriate strategies for these regions is to make a diagnosis of backwardness in each region, and to evaluate its growth potential. This requires building up of a sound data base for these regions. The IDBI along with other financial institutions initiated industrial potential surveys of backward states

in 1970. The main purpose of these surveys is to identify specific project ideas in the light of the resource endowments, demand conditions and infrastructural facilities over a period of the next 5 to 10 years. These surveys are carried out by study teams under the guidance of a Committee of Direction comprising senior officers of the IDBI, IFCI, ICICI, RBI, ARC and the Government of India. The surveys of almost all the States and Union Territories have been completed. Of the surveys carried out in 16 States and Union Territories, 14 reports have already been published. Others are under print or under preparation.

*Assistance for District Surveys*

The all-India term financing institutions are also actively associating themselves with the surveys of underdeveloped districts in developed States, though they are not in a position to conduct the entire surveys themselves for reasons of shortage of personnel. The Committee of Direction has, however, circulated a detailed note on the procedures for district surveys, for the benefit of State level institutions which undertake such surveys. The financing institutions lend the services of senior officers to assume the leadership of some of the district survey terms.

The Survey report of the States is discussed with the representatives of the State level financial institutions for selection of project ideas that seem prima facie viable.

**Follow-up of the Identified Projects:** As many as 336 project ideas have been identified and recommended, 245 of them by the joint institutional Study Teams, and 91 by other agencies, for implementation in the 13 backward States and Union Territories. Identification of projects, therefore, has been the work of the IDBI, other financial institutions, and various other agencies concerned with the develnpment of these areas.

Out of the 39 projects which have been implemented or are in the process of implementation, the IDBI itself has extended assistance to ten. The items of manufacture covered by these 10 projects include pulp and paper, caustic soda and synthetic glue manufacturing projects in Assam; a high carbon steel project in Bihar; a nylon filament yarn project in Madhya Pradesh; a sugar project in Nagaland; refractories machinery manufacturing and sodium dichromate projects in Orissa and a tyre and tube project in Uttar Pradesh.

*Commissioning Preliminary Feasibility Studies*

The Central term financing institutions have so far commissioned preliminary feasibility studies of 17 project ideas identified by the Study Teams. These include projects for setting up sugar mills, paper and pulp plants, jute mills, steel billet units, etc. These feasibility studies would provide enough material for taking a prima facie decision by promoters in selecting a project, and thus reducing the delay in its implementation. The other project ideas identified in the survey reports are still to be developed into viable schemes, for which the term financing institutions have initiated several measures. The Committee of Direction has finalized certain guidelines; feasibility studies would be commissioned only for facilitating identificaton of entrepreneurs. Financial institutions offer their assistance to interested entrepreneurs in the preparation of detailed feasibility study, by recommending suitable consultants.

*Inter-institutional Groups*

On the initiative of the all-India financial institutions, inter-institutional groups have been formed in 16 States, with a view to facilitating the work relating to the various facets of the project cycle, as also to undertake the task of identifying project ideas on a continuing basis. Steps are being taken for the setting up of similar groups in the remaining States. The all-India and the State-level institutions have been able to obtain favourable response for some projects through the publicity of project ideas and feasibility studies among prospective entrepreneurs.

**Technical Assistance :** The financial institutions have prepared a list of consultants, giving their areas of specialization and the services that they can offer to prospective entrepreneurs. The list is updated from time to time, and circulated among the financial institutions, banks and State Directorates of Industries. At the initiative of the IDBI, these institutions have already set up consultancy service centres at Cochin (Kerala Industrial and Technical Consultancy Organisation) and at Gauhati (North Eastern Industrial and Technical Consultancy Organisation). Similar organizations are proposed to be set up for different regions in the near future.

**Subsidiary Companies of Financial Institutions :** Perhaps the financial institutions will have to think of setting up subsidiaries

for promoting industries, so that the relationship of borrower-lender can be transformed into the relationship of partners in development. The lending function creates in-built constraints in the lending banker. As a lending banker, a banker cannot contribute effectively during the infancy of an industrial enterprise. This happens because most of the problems faced are other than financial problems, and often occasions do arise when finance is required, but it is for the creation of non-bankable intangibles and/or non-current assets. During this period, only such entrepreneurs can go ahead, who have financial and managerial resources, and past experience in running a business enterprise. This is why, even with 100 per cent financial assistance, new entrepreneurs find it most difficult, and very inconvenient to set up their units in backward areas.

## Rural Industries Project Programme

The RIP programme is in operation in 111 districts including 92 concessional finance backward districts and 55 investment subsidy backward districts. The programme covers the districts excluding towns with more than 25,000 population. It is essentially an extension programme. Each project has a separate organization comprising a project officer assisted by suitable personnel of technical and economic disciplines.

### *Special Facilities*

(1) **Provision for Developmental Schemes:** Special funds are provided by the Centre for starting various development schemes like training of local entrepreneurs, common facility service centre etc.

(2) **Concessional Loan Assistance from RIP Funds:** Loans are provided to small-scale units at a concessional rate of interest of $5\frac{1}{2}$ per cent out of RIP funds.

(3) **Liberalized Financial Assistance from Nationalized Banks:** The State Bank of India and a few other nationalized banks provide credit on liberal terms. No security or mortgaging of assets is necessary in the case of loans upto Rs. 7,500/-.

(4) **Special Allocation of Scarce Raw Material:** 15 per cent of the total allocations of controlled or indigenous raw materials are set apart by DC (SSI) for distribution to the RIP units.

*New Guidelines*

On the basis of evaluation report of the Project Officer of RIP new guidelines are given to the State Government for effectively implementing the programme. These guidelines lay stress on the following points :

(1) Uniformity in project reporting of all the States.
(2) Selection of specific rural industrial development centres for intensive development.
(3) Improvement in quality of techno-economic survey reports.
(4) Conducting industrial promotion campaigns every year at the selected centres.
(5) Special emphasis on the development of village industries.
(6) Special attention to the marketing problems.
(7) Preparation of performance budget, and
(8) Expansion proposed for (7).

It has been tentatively decided to have 50 additional projects from backward districts during the Sixth Plan.

*Rural Artisans Programme*

The objective of the RA programme is to provide all-round training to the village artisans and agricultural labourers in different village trades. The programme covers 40 districts, where RIP and Backward Areas Development programmes are also in operation. Besides, 14 districts under SFDA (Small Farmers Development Agency) have also taken up this programme.

**Special Concessions**

(1) A stipend is given to the extent of Rs. 100/- per month per trainee.
(2) A tool kit is provided free of cost.
(3) Subsidy to the extent of $33\frac{1}{3}$ per cent is given for purchase of improved tools and equipment.

**Co-operative Society :** For artisans from the co-operative society, the subsidy may be upto 50 per cent.

**Strategy**

(1) To have an integrated and co-ordinated development under RIP, RAP and Backward Areas Development Programme in the country.
(2) Out of 20 districts selected for integrated rural development in the country, 8 districts covered under RAP have

been taken up for intensive development. One Officer has specially been earmarked from the concerned SISI to look after this work at district level.

(3) It is proposed to take up another five districts for intensive development from among the districts selected for integral rural development during 1977-78.

*Integrated Rural Development*

Integrated rural development is very much in the air. Even private sector companies have started to take interest in developing rural areas. In some cases participation is direct, in some indirect. As far as the overall country is concerned as many as 2,300 blocks, out of a total of 5,004 in the country, are deemed to be covered by the integrated rural development programme by the end of the current financial year. Of these, 2,000 blocks will be out of those (nearly 3,000) in which three major development programmes are being implemented. The remaining 300 blocks are to be added under the phased scheme of taking up 300 blocks for intensive block level planning and development every year during the period of five years starting from the current year.

The former 2,000 blocks have already been identified in the various states—168 in Andhra Pradesh, 39 in Assam, 304 in Bihar, 96 in Gujarat, 39 in Haryana, 11 in Himachal Pradesh, 38 in Jammu and Kashmir, 95 in Karnataka, 45 in Kerala, 126 in Madhya Pradesh, 116 in Maharashtra, five in Manipur, seven in Meghalaya, 13 in Nagaland, 114 in Orissa, 46 in Punjab, 103 in Rajasthan, two in Sikkim, 113 in Tamil Nadu, seven in Tripura, 338 in Uttar Pradesh, 163 in West Bengal, three in the union territory of Delhi, seven in Goa, Daman and Diu and two in Pondicherry. They have been selected by the state governments in line with the guidelines provided by the central government: (i) Each district presently covered by the SFDA, DPAP and the CAD programmes should be allotted integrated rural development blocks more or less on a pro rata basis according to the blocks in which the above programmes are in force; (ii) blocks with more than 20 per cent scheduled caste population should be covered first; (iii) higher incidence of unemployment and under-employment might be kept in view in selecting the blocks if such figures are available; (iv) the potentiality for development and organizational work that has already been

built up in the blocks; (v) low agricultural productivity; and (vi) low consumption level and the high rate of the people living below the poverty-line.

The additional 300 blocks to be taken up for intensive development every year during the five years to 1983-84 are to be selected on the following basis:

(i) Those states where 40 per cent of the blocks are not covered under the programme of apportioning the above 2,000 blocks will be allocated the required number out of the additional 300 blocks in the quota for the current financial year to make up the deficit and to bring up to 40 per cent coverage;

(ii) every district in the country which does not have any special programme will be allocated one block per year during the medium-term plan;

(iii) further allocations will be made every year specially to ensure that all blocks in the country with more than 20 per cent scheduled caste population are covered by the programme during the current Plan period, preferably at the earliest, and

(iv) the balance blocks will be distributed amongst the states on the basis of their rural population.

*Integrated Programme*

The new blocks to be taken up for the development every year will be from those areas which are not covered by the three special programmes of SFDA, DPAP and CAD.

By the end of the current Plan period, 3,000 blocks will be covered by the integrated rural development programme. The remaining blocks are proposed to be brought within the purview of the scheme during the next Plan period with a view to achieving full employment in rural areas in the declared time-frame of ten years.

The integrated rural development programme will cover:

1. Programme of agricultural development, including efficient utilization of land and water resources with the available scientific technology;

2. Programmes of animal husbandry as a subsidiary occupation mainly directed to small peasant households and agricultural

labour households so as to maximize utilization of by-products in the farm and, at the same time, aiming at commercial production of animal husbandry products—necessary infrastructure for commercialization would be in-built in the programme;

3. Programme of inland water and brackish water fisheries to maximize out-put of fish per unit of water and develop as an important occupation for the fishermen classes and such other backward classes in the economy;

4. Programme of marine fishery, including harvesting of natural resources through trawlers, mechanized boats and country boats, keeping in view the need to maximize employment of the poorer sections of the fishermen population and preventing unhealthy competition between the three sectors to the detriment of the poorer classes;

5. Programme of social forestry to provide a base for fuel and fodder in the economy and with special earmarking of use for the poorer sections of the community for exploitation as an occupation or as fodder for an animal husbandry programme—tassar, eri and muga and lac rearing by the poorer sections should be in-built into the programme;

6. Programme of farm forestry through the small peasant households as a subsidiary income and also for maximizing the use of land;

7. Village and cottage industries including handlooms, sericulture, bee-rearing etc. as a full or part-time occupation to the artisan classes of the rural population;

8. Development programmes for service sectors of the rural economy as self-employment sectors for the poorer families both as a means of providing for a need felt in the economy and as means of better livelihood to the poorer sections; and

9. Labour programmes of skill formation and labour mobility to meet the needs of organized labour for development works and of the nature of employment guarantee where necessary.

*Chapter 14*

# THE FUTURE LIES HERE

Mahatma Gandhi often said that India lives in her villages. Though the Government of free India had adopted the policy of providing protection to some rural industries, the overall industrial activities have till recently remained confined to urban areas and that too in selected cities. Consequently, the physical, natural and human resources in rural areas have been under-exploited. The village industry sector, including handicrafts, handloom, etc. contribute to national production of consumer goods, thereby providing livelihood to millions and creating a balanced economy in collaboration with the agricultural sector. The village industry sector is patronized by the masses as they are not only engaged in it but also consume and utilize their own production to a large extent. The village industry sector employs the largest number of the people in it—1.20 crores—next to agriculture and service sector, which employ about 13.10 crores and 1.95 crores respectively, while the other industries employ 0.80 crores. The household and cottage industries which form an important segment require special attention and protection as they themselves are weak and unable to compete with large industry. Every country, however, makes arrangement for the protection and support of its weaker sections. The rural industries have a strong case for protection. They were part and parcel of Indian economy and played a role of balancing the socio-economic structure on one hand and on the other kept the equilibrium in agricultural and industrial progress in the past.

## Sources of Finance

What are the sources of finance in rural areas? Mention must be made of the yeoman service rendered by the public sector banks who have prepared the impressionistic survey reports of each of the districts in the country under the lead bank scheme. Most of the banks have also prepared district credit plans in which they

have identified the bankable schemes segmentwise. The public sector banks have been extending credit facilities for setting up new units of cottage industries, expanding the existing units as also revitalizing the old ones. The facility and accommodation is provided in the form of meeting the recurring expenses and working capital as also investment credit for meeting capital expenditure. These facilities are granted in the form of short-term and medium-term loans respectively.

Any loan proposal for setting up a rural industry should necessarily contain essential ingredients such as genuineness of the credit needs, technical feasibility and economic viability upon which ultimately rests the successful implementation of the scheme, generation of adequate returns, repayment of loan and improved purchasing power of the artisans. The genuineness of the credit requirements of the artisan is verified from the available data and personal discussions. Often this is verified with reference to the norms and guidelines applicable for a particular village industry and area. The technical feasibility of the scheme is ascertained in order to find out as to whether the applicant is in a position to run the proposed industry successfully without any difficulties. This is established by collecting information on the qualification, family background, experience, knowledge and skill and aptitude of the applicant. More emphasis has been laid on the integrated plan linking with the availability of raw materials, equipment, tools, technical guidance and marketing arrangement. The feasibility analysis of the rural industrial units for a large number of artisans of an area approach basis, aims at determining whether the increased annual gross income due to the investment is sufficient to redeem the annual capital charge plus the increase in the annual cost of operations and maintenance and leave a cushion for improvement in the standard of living. The economic viability has to be worked out for determining the repaying capacity of the artisans.

## Financing Not so Easy

Financing rural industries is a complex affair. It throws up several problems. There is an utter lack of awareness and confidence on the part of artisans in rural areas to set up rural industries. They start with numerous problems which defy them to take up

this. This is mainly attributed to the factors such as lack of organization at the grassroot level, i.e. village level to guide them, motivate them and demonstrate the effectiveness and utility of the specific rural industries. The artisans in the rural areas are unorganized and they have no knowledge of coming together for mutual benefits or no one is there to form and bring them together under co-operatives of villages industries so that common facilities could be created and planned efforts could be made to fulfil all their requirements. It must be said that special projects in the field of agriculture, such as Small Farmers Development Agencies (SFDA) and Marginal Farmers' and Agricultural Labourers' Agencies, (MFAL), Command Area Development (CAD), Drought Prone Area Programme (DPAP), have been instrumental in helping these people.

## Loans from Nationalized Banks

With a view to promoting rural industries, the Government has initiated some enabling measures so that the artisans may find it attractive to secure loan from the public sector banks as also the interest of the banks may be safeguarded. They are as follows :

(1) The Differential Rate of Interest (DRI) scheme, under which the loans are made available @ 4% rate of interest, is now extended to the whole country. Under the scheme, the artisans whose total annual family income from all sources does not exceed Rs. 2,400/- in rural areas and Rs. 3,000/- in urban areas, and whose land holding is up to one acre or 2.5 acres are eligible to secure Rs. 2,500/- as working capital and Rs. 5,000/- as capital expenditure. However, the individual artisans have to satisfy the following criteria :

(1) The family income of the borrower from all sources does not exceed Rs. 3,000/- per annum in urban or semi-urban areas or Rs. 2,000/- per annum in rural areas.
(2) He does not own any land or the size of his holding does not exceed one acre in the case of irrigated land and 2.5 acres in the case of unirrigated land.
(3) Members of scheduled castes and scheduled tribes are eligible for the loan, irrespective of their land holdings provided they satisfy the other criteria.

(4) He can be helped to rise above his present economic level through a productive endeavour being such as would become economically viable within a period of say 3 years.
(5) He does not incur liability to two sources of finance at the same time.
(6) He works largely on his own and with such help as other members of his family or some joint partners may give to him and does not employ paid employees on regular basis.

## KHADI AND VILLAGE INDUSTRIES

The Government has sanctioned a comprehensive scheme of interest subsidy to institutional financing for Khadi and Village Industries. The scheme covers both working capital and capital expenditure. Under the scheme, the Khadi and Village Industries Commission, KVI Boards, registered institutions and KVI co-operatives can raise finance from the institutional financing agencies (including banks, IDBI, SFC) within the approved programme.

The loans for Khadi and Village Industries extended by public sector banks are covered under the guarantee scheme for small-scale industries by the Government.

The consumption loan to meet the medical, educational, religious, funeral and marriage ceremony expenses is granted to those rural artisans who are covered under the provisions of debt/liquidation/moratorium on repayment of loan legislation passed by the Government.

While KVIC has been extending financial, technical and organizational facilities and seeks the support of the public sector banks, the successful implementation of the ambitious plan of village industries depend much upon drawing a blue print of integrated plan for village industries. The industries under the purview of the KVIC are:

(1) Khadi (cotton, woollen and silk),
(2) Processing of cereals and pulses,
(3) Ghani oil,
(4) Manufacture of cane *gur* and *khandsari*,
(5) Palm *gur* making and other palm products,
(6) Cottage match,

(7) Non-edible oils and soaps,
(8) Handmade papers,
(9) Bee keeping,
(10) Village pottery,
(11) Flaying, curing and tanning of hides and skins and ancillary industries connected with the same and cottage leather industry,
(12) Fibre other than coir,
(13) Manufacture of gums and resins,
(14) Lime manufacturing,
(15) Collection of forest plants and fruits for medical purposes,
(16) Blacksmithy,
(17) Carpentry,
(18) Manufacture and use of manure and methane (*gobar*) gas from cowdung and other waste products,
(19) Manufacture of shellac,
(20) Bamboo and cane work,
(21) Manufacture of *katha*,
(22) Fruit processing and fruit preservation, and
(23) Manufacture of household utensils in aluminium.

The Khadi and Village Industries Commission has both executive and financial powers and its activities cover a wide range. They include procurement of raw materials and their distribution to the producers at one end and the disposal of the finished goods at the other. Training of artisans, supervisory, technical and managerial personnel is yet another activity of the KVIC. Besides, the commission procures and distributes improved tools, equipment and machinery to the producers on easy terms. The KVIC provides facilities for research and assistance for setting up suitable organizations for Khadi and Village Industries. All this has made the KVIC's functions complex and activities multifarious while it is essentially a promotional and development organization.

The KVIC receives funds for developmental activities from the Government out of the Plan allocations in the shape of grants and loans. In the Fifth Plan, however, the establishment cost of the Commission is treated as non-plan expenditure and the other expenditure as plan expenditure. All such receipts from Government and repayment of loans, refunds and interest received from

the Commission's assisted agencies are credited to two funds, namely the khadi fund and the village industries fund operated by the Commission. From these two funds, disbursements are made by the Commission to the implementing agencies on the basis of the previously approved budget and programme. The loans are given generally for 5 and 10 years and are interest-free for the development of khadi. The Government of India, however, charges the Commission an interest of about 5.5 per cent on the loans given by it and the difference in interest is reflected in Government accounts as subsidy in lieu of interest to the Commission. The establishment of the Commission gave a great stimulus to the development of these industries. As a result of the Commission's sustained efforts the work spread to about 2 lakh villages and the Commission's achievements in khadi and village industries reached an impressive level recently.

## The Programme Gains Momentum

Rural development has been given the pride of place by the new Government and quite rightly so. The Government has come out with a programme of integrated rural development, the primary objective of which is the provision of employment to the weaker sections of the society coupled with raising the standard of living of those living below the poverty line. The Government has launched projects like the Small Farmers Development Agencies (SFDA), the Marginal Farmers and Agricultural Labourers' Agencies (MFAL), the Command Area Development (CAD), the Drought Prone Area Programme (DPAP). All these programmes were evolved primarily with the aim of helping the weaker sections of the society. The proposed programme is aimed at intensifying the rural development work. For this, 2,000 blocks have been selected to cover these programmes during the year 1978-79. In addition, it is proposed to take another 300 blocks for intensive block level planning and development every year for a period of five years, commencing from the current year. In the process, 3,500 blocks would be covered by the end of the sixth plan. It has been observed that lack of progressive attitude and entrepreneurial aptitude among the rural people has been a major impediment in promoting and developing industries in the rural areas. Unless these attitudes

undergo a change, the possibilities of industrial development in rural areas would be quite remote.

*Sixth Plan's Main Strategy*

Integrated rural development has now been accepted as the main strategy for rural development in the Sixth Plan (1978-83). The past experience in the earlier plans has shown that a project approach or a sectoral approach is not adequate to lead to an overall development and distribution of benefits to local population, particularly to the weaker sections of society. Taking into account the difference in the levels of development and potential for development in an area, it would be necessary to have specific area programmes that utilize local endowments and ensure growth with social justice and for full employment. The objectives can be achieved by integrating field programmes reflecting economic activity of the rural family whose employment and development is the basic objective. This can be brought about by developing primary, secondary and tertiary sectors. In the primary sector programmes of agriculture, animal husbandry, fisheries and forestry development will have to be intensified.

*Tax Incentives*

The rural industries are increasingly being given a greater importance in the Central Government's strategy for creating more employment opportunities. Several concessions are being given to those sectors and several new schemes are being worked out. The new Government introduced two important tax incentives through the Finance Act 1977 in the Income-tax Act with a view to encourage companies and co-operative societies to involve themselves in the work of rural welfare and to give a direct stimulus for the setting up of small-scale industries in rural areas. The rural development allowance envisaged by section 35 CC would be available to companies and co-operative societies which incur any expenditure after September 1977 on any programme of rural development. The incentive is given by way of allowing such expenditure to be deducted in computing their taxable income. This allowance is allowed only when the company or co-operative society obtains the prior approval of the prescribed authority in respect of the programme of rural development undertaken by it.

The other concession is the preferential tax treatment of a small-scale industrial unit set up in rural areas. The scope of this concession under section 80 is wide in as much as it is available to all categories of taxpayers, who set up a small-scale industrial unit in rural areas. The concession is given by way of deduction from their gross total income of and a sum equal to 20% of the profits derived by them from the small-scale industrial unit in any rural area. The deduction is allowed in respect of each of the ten assessment years beginning with the assessment year relevant to the previous year in which the industrial unit begins to manufacture goods. An industrial unit is regarded as a small-scale unit if the aggregate value of the machinery and the plant installed as on the last day of the previous year for the purpose of business of the investment does not exceed Rs. 10 lakhs.

*Involvement of Private Industry*

The Government is keen that the private sector industry involves itself actively in rural development. With this view the Government gives several incentives like "exemption from taxation on expenditure incurred by private sector industry for any development project". The basic concept is that the industrial unit should support important rural development schemes not merely in terms of their financing but by the supply of efficient management inputs for effective execution of such schemes. It is obvious that the Government wants the benefit of the programme to flow to the public in general in the rural area and not the applicant company or co-operative society itself. Mere contributions to a rural development programme undertaken by another person will not qualify for deduction under the Income-tax Act. The guidelines contain an illustrative list of categories of rural development projects for approval under the Act. The categories are :

1. Assistance in the setting up of rural industries in selected areas by the rural weak to provide them self-employment.
2. Establishment and running of dispensaries, maternity and child welfare centres and family welfare centres.
3. Nutrition programmes for school children.
4. Establishment and running of educational and vocational training centres.

5. Construction and maintenance of rural link roads, village streets, pavements and drainage.
6. Construction and maintenance of drinking water projects, such as wells, tubewells, etc. and cleaning of wells and ponds.
7. Rural electrification, i.e. provision of street lighting in villages and electrification of Harijan and tribal homes.
8. Assistance to the weaker sections in constructing houses on sites provided in rural areas by the Government, village panchayats, etc.
9. Minor irrigation schemes, including boring of tubewells and installation of pumping sets for the benefit of groups of small and marginal farmers.
10. Supply of improved varieties of seeds and provision of facilities for seed testing to groups of small and marginal farmers and assistance to such farmers for establishing seed farms.
11. Supply of fertilizers and insecticides to groups of small and marginal farmers and giving guidance and training to such farmers in the use of fertilizers, insecticides, etc.
12. Supply of plant protection equipment, sprayers, farm machinery, implements, etc. to the village panchayat for the use of groups of small and marginal farmers.
13. Animal husbandry—assisting the farmers in cattle improvement through establishment of veterinary dispensaries, artificial insemination centres, etc., dairy products processing and marketing.
14. Assistance to groups of small and marginal farmers, landless labourers, etc. in poultry farming, horticulture, pisciculture, etc.
15. Establishment of workshops for servicing and repair of farm machinery and training of artisans, mechanics, etc.

The private sector in industry has of late started taking interest in rural development. Many industrial units are doing excellent work in various parts of the country. Mention must be made of big business houses like the Tatas, Mafatlals, Birlas, DCM, Modis, and ITC. According to recently published statistics, rural development programmes of 64 private sector companies are approved by the Finance Ministry under Section 35 CC of the Income-tax

Act. One characteristic feature of rural development is that the momentum of such development is properly initiated in the villages themselves. While it is the Government's responsibility to develop the infrastructure required for rural development, business houses bring in institutional financing agencies and make use of facilities available in the Government plans and innovate and monitor economic development programmes. Motivation of the local community is the pre-requisite of successful implementation of any plan. Rural development has different facets, each of which is not only complex but also intricate. Mere injection of money is not likely to create a desirable impact.

*Mafatlal's Experiment*

There is a consensus that business houses should concentrate on a time-bound result-oriented approach. Some business houses join hands with voluntary agencies to achieve concrete results. The Mafatlal Group's rural development programme is launched in collaboration with Bharatiya Agro-Industries Foundation (BAIF). Its experience in introducing the cross-bred cow technology in rural areas has been very encouraging. Under a new scheme prepared by the Mafatlal Group, and BAIF any business company can contribute Rs. 2.5 lakhs per year, committed to five years, to BAIF who will undertake the responsibility to help at least 1,000 families in 15 to 20 villages constituting a centre to come out of poverty in five years. The entire expenditure which a business company incurs on this is permissible expenditure under Section 35 CC of the Income-tax Act.

It is hoped that in years to come more and more business houses will come forward to avail of the various concessions and incentives given by the Government to promote integrated rural development.

*Chapter 15*

# WOOING FOREIGN INVESTORS

INDUSTRIALIZATION is a complex and a continuing process. It involves, as we have seen in earlier chapters, the co-operation of several agencies, governmental and otherwise, within a country. A nation has to supplement its financial resources with the assistance from other nations. This has been true even of the industrially advanced nations. Since domestic saving is not adequate to set off an accelerated process of economic growth in developing countries, foreign saving is required to supplement domestic saving. As the UN Survey indicates, in the fifties, foreign savings contributed significantly to the total supply of savings in most of the developing countries. As a result of this, these countries were able to register during this decade annual rates of growth amounting to 4 per cent or more.

Economists the world over argue that foreign borrowing—including aid and private foreign investment and collaboration—has a useful role to play in the economic development of developing countries. Apart from filling the gap between domestic savings and capital needed for sustaining a higher rate of industrialization, foreign borrowing makes available a special and useful resource, namely, foreign exchange, which is in scarce supply.

Foreign investment is something which every developing country should be happy to welcome since such investment provides:

(1) additional resources for increasing the economy's own investment;
(2) valuable foreign exchange and technical know-how;
(3) imposes a lesser strain on the balance of payments since it is intended to stay for long, expand and multiply, in the course of earning a fair return for the investors.

## RATE OF RETURN

As economic development in underdeveloped countries gets under

way and gathers momentum, their capacity to absorb foreign borrowings increases; and for sustaining the momentum in development it becomes crucial that the inflow of development assistance is augmented. If at this juncture, the supply of assistance from abroad is cut short, it means disaster for economic development. From the capital exporting country's viewpoint foreign investment represents an increase in exports, without a corresponding increase in imports in order to secure an ultimate increase in exports. The classical view was that foreign investment was a factor working towards increasing the efficiency of domestic investments. Foreign investment can be advocated only if the return is greater than that on domestic investment after allowing for the differences in risk and the foregoing of benefits in terms of returns on complementary domestic factors like labour. The two prime considerations of foreign investment are profitability of such investments and freedom of repatriation of both profit and the principal. However lucrative the prospects may look, if there be doubts about repatriation of earnings and invested funds, let it be understood, that most foreign investors will be reluctant to finance projects in foreign lands.

## Tied Aid

It is essential for an underdeveloped country to rely to a large extent on foreign borrowing, particularly in the form of tied aid, in the initial stages of its economic development. Such aid becomes essential mainly to provide the foreign exchange necessary for purchasing capital equipment and industrial raw materials from outside. It would appear that in the long run private foreign investment is preferable to tied foreign aid. In developing countries like Korea, Singapore and Thailand and more recently in Malaysia and Philippines, foreign investment has made a positive contribution towards bridging the domestic-savings-investment gap, while at the same time facilitating the transfer of technology and contributing to the industrialization programme in general. Aid-tying has two major adverse effects on the recipient country. First, it usually means purchasing at higher market prices. Second, it prevents developing countries from competing for aid money with exports to each other's markets when they have a supply capability.

Since Independence, India also found itself in need of substantive foreign aid when she decided upon a policy of planned economic

development. On the eve of the First Plan, the attitude toward foreign aid was more dominated by reluctance rather than need. It was stated in 1949, that India's policy towards foreign investors would be based on the principle of national treatment, that repatriation of capital and profits would be subject only to foreign exchange availability. The size of the First Plan was modest, envisaging a total investment in private and public sectors of Rs. 3,360 crores, 94.2 per cent of which was financed by domestic resources. Foreign aid contribution during this period amounted to Rs. 194.3 crores only or 5.8 per cent of the total investment.

The ambitious Second Plan envisaged an investment of Rs. 6,200 crores and its foreign exchange requirement was placed at Rs. 1,100 crores. Of the estimated foreign exchange requirement, Rs. 200 crores was supposed to be obtained from withdrawals from foreign exchange reserves. The revised foreign exchange requirement rose from Rs. 1,100 crores to Rs. 1,700 crores. The size of the Plan increased with the total investment rising to Rs. 6,750 crores more than 21 per cent of which was met through foreign aid. The role of foreign aid during the Second Plan cannot be deemed marginal or supplementary; it was a major determinant of the success of the Second Plan schemes. The foreign exchange crisis that arose after the third year of the Second Plan, totally removed the inhibitions about the consequences of foreign aid.

Thus while framing the Third Plan a substantial amount of such aid was considered not only inevitable, but, also "advantageous from the point of view of recipient country". Simultaneously, a long-term perspective Plan aiming at rapid expansion of the economy and making it self-reliant was launched in the Third Plan which envisaged a total investment of Rs. 10,400 crores. The direct foreign exchange component of the investment outlay was estimated at Rs. 2,200 crores initially. As a result of wars with China and Pakistan, the foreign exchange component had to be revised upwards in order to make the Plan defence-oriented. The foreign exchange component was estimated to be Rs. 130 crores higher than the original estimates. The actual quantum of foreign aid utilization during the Third Plan was Rs. 2,868 crores with foreign aid contributions by various nations accounting for 27.6 per cent of the total investment of the Plan.

After the conclusion of the Third Plan, three annual plans were launched during which Rs. 9,744 crores were invested; of

the total investment Rs. 2,655 crores came through foreign aid. Thus the contribution of foreign aid to the total investment during the period of three annual Plans amounted to 27 per cent.

The fourth Plan was launched with an investment provision of Rs. 22,635 crores. The total foreign aid during the Plan period was estimated at Rs. 2,540 crores or 11 per cent of the total plan investment.

In the Fifth Plan domestic resources were provided to the tune of Rs. 32,115 crores or 81.7 per cent. Of the total resources required for financing the Plan foreign aid accounted for about 15 per cent of the Plan outlay.

## Self-financing Our Plans

You will see that India has financed her Plans through her own resources and the role of aid in financing the investment outlays has been restricted to the minimum. It is true that in comparative terms during the second, third and the three annual plans, the foreign exchange component as a percentage of the total investment outlay was comparatively large.

India has received a substantial amount of foreign aid. The bulk of it has been from the United States and other countries in the form of tied aid. As a logical corollary, the borrowing country is forced to purchase goods or equipment only from the lending country. It has been estimated that the prices charged by lending countries are in some cases 30 to 40 per cent higher in respect of some goods as compared to international prices and invariably 10 to 20 per cent higher all along the line. Yet it has been conceded that India has encouraged foreign aid and investment as a tool for expanding industry, transferring technical expertise, earning foreign exchange and accelerating economic growth beyond the level which domestic savings permit.

## Positive Policy

The Government of India has a very positive attitude towards foreign capital. Though there has been a marked change in the policy during the last 15 years, the content of the policy has, more or less, remained the same. While the Government has, way back in 1965, recognized that "private foreign investment has

a role to play not only as an essential supplement to assistance from friendly foreign governments and international institutions but also as a catalyst for the development of technical skills and enterprise among our own people" and therefore declared that "this policy of hospitable and fair treatment will be continued in future". Very recently in 1977, it has reversed its stand and now the policy towards foreign investment is a "selective" one.

In short, foreign industry enjoys a protected status in India. Nationalization of any sector of foreign industry is ruled out. When banks were nationalized, the foreign banks were left out. The few cases of take-over in recent years have been by mutual consent, supported by fair compensation. Nationalization of multi-national Corporations operating in the country has never been seriously thought of by the Government. India has reached a significant stage of economic development and the country can no longer largely be dependent upon foreign capital as it did two decades ago to further its development. The Government has made it clear that foreign capital is welcome only in selective cases where the import of technology is imperative where Indian technology has not made adequate headway. There is virtually no block on profit remittance or repatriation of capital.

## Selective Screening

Inflow of foreign capital involves a recurring foreign exchange drain in the form of profits and capital repatriation. It is essential that foreign investment, by and large, takes place in those industries which would result either in an indirect saving of foreign exchange through import substitution, or by enhancement of export receipts. India adopts the policy of screening of foreign investment proposals and this should not be regarded as an obstacle to investment. Effective screening is one of the surest safeguards the foreign investor can have to ensure that the country will not be obliged at a later date, due to balance of payments difficulties, to freeze repatriation of profits and capital. The foreign investment applications which receive the most favourable reception in our ccuntry are those involving advanced technological processes or those which are expected to improve the country's foreign exchange position by increasing exports or those which may replace imports. Every effort has been made to attract private foreign investment.

## REGULATING FOREIGN COMPANIES

Each country adopts legislation to regulate the operations of foreign companies operating in its territory. The controversial Foreign Exchange Regulation Act in India is an important factor in relation to foreign capital. The Act which was put on the statute-book in 1973 confers powers on the Government, under given circumstances, to direct a foreign company having majority shares to bring down its equity to 40 per cent.

There are, however, major exceptions which were incorporated in 1976 after examining the working of the Act in actual practice. These exceptions are :

If 75 per cent turnover of the Company arises out of any one of the following three activities or a combination of them, then such companies are allowed to retain upto 74 per cent of foreign equity :

(a) Priority industry;
(b) Sophisticated technology industry;
(c) Exports.

Where a combination of all the three activities amount to 60—74 per cent of the total turnover, foreign companies can retain 51 per cent of equity provided an undertaking is given to export a minimum of 10 per cent of the annual production.

Companies exporting more than 40 per cent of their production can also retain equity upto 51 per cent. Cases of companies coming with proposals of substantial exports are considered on merit for higher level of equity participation.

100 per cent holding is permitted if foreign companies undertake to export the entire produce.

Under the Act previous approval of the Reserve Bank of India is necessary :

1. To appoint any agent in India for commercial transactions, or to permit any trademark to be used by any person in India, or to appoint any technical or management advisor in India.
2. To carry on trading, commercial or industrial business in India or establish a branch, or to acquire any business

undertaking or purchase the shares of any business undertaking in India.

3. To take up an employment in India, if such employment involves payment in foreign exchange. Similar permission is required if foreign nationals or companies want to acquire or hold immovable property in India.

## Foreign Collaboration

The Government has taken care to see to it that foreign collaboration works out to India's advantage. The heartening aspect of our economic development is the diversification of the country's industrial development—an aspect to which foreign private investment and collaboration have contributed in no small way. What exactly is "foreign collaboration"? The term in India includes arrangements involving a foreign company, i.e. licensing agreements, the supply of technology and foreign equity participation. As a general rule, all have to be approved by the Government. However, the majority of agreements cover only technical collaboration without any equity participation. Private foreign capital is of two types :

(1) *Direct Entrepreneurial Investment*

Foreign capital usually enters India in the form of direct investments.

(2) *Foreign Collaboration*

In recent years, however, the Government has been encouraging this form of importing foreign capital. A recent survey of the Reserve Bank of India covered 904 such companies in the private sector, of which 197 were subsidiaries, 433 majority participation and 274 pure technical collaboration agreements. Of these 620 companies (or about 70 per cent of the total) covered had technical collaboration arrangements involving 1,078 effective arrangements. Out of 1,078 agreements 167 were in respect of subsidiaries, 489 by minority companies, and 422 by pure technical collaboration companies. Percentagewise, subsidiaries accounted for 15.2 per cent of agreements, minority foreign capital investment companies 44.5 per cent and pure technical collaboration 40.3 per cent. Countrywise the U.K., the U.S.A., and West Germany together

accounted for about 70 per cent of the agreements. U.K. topped the list with a share of about 36 per cent, followed by the U.S.A. and West Germany who accounted for 19 per cent and 15 per cent respectively.

In fact, between 1957 and 1975, the Government approved about 4,440 foreign collaboration arrangements. The U.S.A. accounted for 829. Today, the total quantum of foreign investment in the country is around Rs. 2000 crores.

## Sophisticated Industries

Foreign collaboration has been in the field of tea machinery, dairy machinery, mining machinery, cotton textile and jute machinery, sugar machinery, printing machinery, etc. In the case of drugs and pharmaceuticals industry as many as 256 firms have been set up with foreign technical and financial collaboration. Almost all the companies manufacturing motor-cycles, automobiles, locomotives and aircrafts parts and accessories have foreign collaboration. The list of industries where collaboration is sought clearly indicates how it has contributed to the diversification of industrial development pattern by making available to it in crucial industries the foreign technical know-how, investment and the import of key capital goods.

## New List of Industries

In May 1978, the Government issued a list of 31 groups of industries where foreign collaboration would not be normally permitted. A more compact list covering 22 groups of industries was issued on December 28, 1978. The new list gives discretionary powers to the concerned administrative ministries to relax the ban under certain conditions, on grounds of cost, modernization, export competitiveness, know-how being closely held and not available for sharing and so forth. There is an important difference in approach, however, in drawing up the present list. In the past, the starting point was to list industries and areas of enterprise in which foreign collaboration was welcome and would be permitted. The position has now been reversed. The area in which foreign collaboration will not be

allowed having been listed, all the rest of the field will presumably be open for foreign investment. It is said that the new approach offers a wider area of choice for the foreign investors and will impart greater flexibility to the administrative agencies in scrutinizing collaboration proposals.

The comfortable foreign exchange situation has warranted the streamlining of foreign collaboration requirements and modes for the simple reason that it is no longer necessary to have foreign collaborations for getting new projects cleared. That was one of the major reasons for the spate of foreign collaborations till a few years ago as foreign-collaborated projects then stood a better chance of getting cleared. In the initial stages, equity participation by foreigners was favoured with the same end in view; it augmented the scarce foreign exchange resources. In the more recent years, this preference has, by and large, yielded place to technical collaborations. In 1974, for instance, as many as 359 ventures were accorded approval to be set up with foreign assistance. Of these, only 35 involved financial participation to the tune of Rs. 6.71 crores. Earlier, financial participation used to be a much larger number of cases. In 1975, the total number of collaborations approved declined to 279. Of these, 40 involved financial participation from abroad to the extent of Rs. 3.28 crores. The total number of collaborations approved in 1976 was 281. Thirty-nine of these provided for financial participation of the order of about Rs. 7.26 crores.

According to FERA, foreign investment and technical collaborations are liberally welcome in industries which are predominantly export-oriented (minimum exports being 60 per cent of the total production) and where the link with a foreign collaborator provides a reliable avenue for export.

Policy decisions aimed at increasing India's exports include the following:

(1) Foreign collaboration would be allowed even in low priority or non-essential industries if the collaborators agree to undertake a major share of the production for exports; and

(2) Units with substantial export performance to their credit would be allowed, on merits, to expand their production capacity to enable them to step up their exports.

## SUB-LICENSING

The Government expects that the technical collaboration agreement should generally not prohibit sub-licensing of the know-how, product-design/engineering-design under the agreement to other Indian parties. Such sub-licensing, when it becomes necessary, is subject to terms mutually agreed upon by all parties concerned, including the foreign collaborator and also to the approval of the Government.

Recently, several points were clarified by the Government.

1. **Fields of Foreign Know-how:** The Ministry of Industry has prescribed lists indicating in which fields foreign know-how and investment will be considered. These lists are, however, not final and the "grey zone" of cases which can be decided on merits is large.

2. **Export Obligations:** Here also the Government policy is flexible. Export obligations can be reduced at a later stage if this is in the overall interest of the home market. In addition, import-substitution is treated like exports.

3. **Foreign Share-holding in New Projects:** As a rule, the majority participation should be in Indian hands, in newly formed joint ventures.

4. **Period of Technical Collaboration:** As a rule, technical collaborations are sanctioned for a period of five years which is felt sufficient to absorb foreign know-how. The Government considers each case on its merits.

5. **Delays in Transfers of Dividends, etc.:** It is sometimes said that there are delays in transfers of dividends, royalties or technical services' fees to foreign parties. The situation has, however, improved lately. The Ministry of Finance sees to it that transfers are made without delays by the banking system.

Recently, the Reserve Bank of India has granted general permission to carry on business to companies incorporated in India in which the non-resident interest did not exceed 74 per cent of the total equity if they were in the basic and core industries or engaged in a predominantly export-oriented industry or in sophisticated lines of manufacturing activity. Initially, the focus of the operation of FERA was on reduction of nonresident interest. Now the policy has been changed to exclude some major areas from its ambit.

*Crystal-clear Policy*

Our Government's policy about areas where foreign capital is welcome, what it can do or cannot, and the framework in which it has to operate has been made very clear. This in itself is a distinct advantage and foreign capital can move in with its eyes open. To quote the Industrial Policy Resolution 1977 so far as the existing foreign companies are concerned, the provisions of FERA would be strictly enforced. After the "process of dilution has been completed, they will be treated on par with Indian companies and their future expansion would be guided by the same principles as are applicable to Indian companies." Further, "foreign investment and acquisition of technology necessary for India's industrial development would be allowed only in such lines as are determined by the Government to be in the national interest." As a rule, "majority interest in ownership and effective control should be in Indian hands." The Government has also availed of various occasions to assure investors that there would not be any sudden changes in the existing policies and regulations governing foreign investment. It has also had a commendable record of honouring its terms of foreign collaboration agreements particularly regarding repatriation of profits besides grant of concessions and rebates.

*Channelizing Investment*

The basic aim of FERA, as we have seen, is to channel the inflow of foreign capital into high priority areas of investment. To the foreign companies already doing business in the country, FERA gives the option of getting out of traditional lines and retaining the majority or even higher shareholding. This provides an opportunity to the existing companies to diversify their production. The objective is to ensure that indigenous entrepreneurial talent as well as Indian capital are associated with joint ventures in a meaningful way. Nevertheless, the foreign partners are given enough freedom to have sufficiently effective interest in the running of enterprises. There is enough scope for foreign capital in export-oriented ventures requiring higher technology, rural industries, small-scale industries and projects to be set up on a decentralized basis in keeping with the new development priorities.

*Controversial MRTP Act*

Another piece of legislation, the Monopolies and Restrictive Trade

Practices Act, in line with the Government's policy, seeks to achieve full control over companies including those which are started by foreign funds. The Act seeks to control expansion, diversification, acquisition and even transfer of shares. Part A of Chapter III is very significant. It applies to an undertaking if the total value of its own assets or together with the assets of inter-connected undertakings is not less than Rs. 20 crores, or in case it is a dominant undertaking, the value of its total assets or that together with the value of inter-connected undertakings is not less than Rs. 1 crore. The value of assets has been taken as the sole criterion, as an index of "bigness" of the undertaking, except where the undertaking is a dominant one, i.e., where an undertaking by itself along with its inter-connected undertakings, produces, supplies, distributes or otherwise controls not less than one-third of the total goods of any description produced, supplied or distributed in India or provides or otherwise controls not less than one-third of any services that are rendered in India, or a substantial part thereof. The word "inter-connected" has been widely defined so as to cover any slightest form of direct or indirect control.

*Dominant Undertaking*

The concept of "dominance" has been defined in terms of the value of assets and dominance over production, supply, distribution of goods, provision of services, etc. These types of undertakings are in the view of the Government, sufficiently big and therefore provision has been made in the Act to the effect that expansion of those undertakings, establishment of new undertakings by them or acquisition by merger or amalgamation of other undertakings is subject to the approval of the Government, which may refer the matter for an inquiry to the MRTP Commission constituted under the Act, if it thinks necessary.

This concept of "large industries" invariably shies away foreign investors. It is argued that an investment of Rs. 20 crores is not a big investment for the $ investors in terms of their currency, but it is recognized as an index of dominance and power. Once such an undertaking is established, it is subject to the control of Government and basically may not provide for the expansion and growth and overall profitability for setting up such ventures. The Act has given wide powers to the Government to order division of an undertaking to a number of undertakings or into a number of

divisions if it thinks it is expedient to do so in the public interest.

Moreover, if a trade practice has the effect of increasing, unreasonably, the profit derived from production, supply or distribution of goods or performance of any services, such a practice is deemed to be prejudicial to public interest and the Government has inherent power to regulate the production, prohibit the undertaking from resorting to any such act, or fix standards for goods, etc.

Again, certain types of agreements mainly relating to selling arrangements are subject to registration and are deemed to be prejudicial to public interest unless existence of circumstances specified in Section 38 is proved. Another restriction laid down by the Companies Act is that it prohibits :

(1) acquisition of shares, being in value, in excess of 25 per cent of the paid-up equity share of the company.
(2) transfer by a body corporate or bodies corporate under the same management, of shares being in value, 10 or more of the subscribed equity share capital of another company.

Powers are also conferred on the Government to order transfer of such shares held in a company engaged in specified industries to any government undertaking or institution. Whatever the criticism levelled against MRTP Act there is no doubt that it has served its primary objective—control of expansion, diversification, acquisition and transfer of shares of large industries including foreign companies.

*Chapter 16*

# THE RED CARPET ROLLS FOR YOU!

THERE ARE as many incentives to lure away foreign investors as there are countries. Some put more emphasis on tariff concessions, while others stress tax exemptions. India offers an attractive package to foreigners who are keen to invest.

Remittance of profits and dividends is freely allowed. No discrimination is made against foreign capital once it is admitted. Foreign capital invested after January 1, 1950, in projects approved by the Government is allowed to be freely repatriated together with profits ploughed back and any capital appreciation in the value of investments. If and when foreign enterprises are acquired, compensation will be paid on a fair and equitable basis.

In order to attract US capital, India and the USA concluded an agreement in 1957 under the United States Investment Guarantee Programme. In accordance with the Agreement, US private investors, on payment of a small premium, can obtain a guarantee from their Government of the reconvertibility into US dollars of the proceeds from the sale of their investments and/or earnings from investments in India in projects approved by the Government of India. This agreement was further extended in 1959 to provide for the payment of adequate compensation to US investors in the event of expropriation of their assets in India. By a further agreement signed on February 2, 1966, the scope of the guarantee coverage has been extended to cover risks relating to war, etc. and commercial risks.

An agreement was reached on October 15, 1964, between the Government of India and the Government of the Federal Republic of Germany regarding certain guarantees in respect of German private capital invested in India. The agreement makes provision regarding fair and equitable compensation to be paid to German investors in the event of nationalization as also for remittances of profits, dividends, liquidation proceeds etc.

There are reciprocal arrangements for relief from double taxation between India and some Commonwealth countries like Kenya,

Uganda, Ghana, Nigeria, Sierra Leone, Zambia and Mauritius. India has bilateral agreements for avoidance of double taxation with Austria, Belgium, Denmark, Finland, France, West Germany (FRG), Greece, Japan, Lebanon, Norway, Pakistan, Sri Lanka, Sweden and UAR. There are also agreements with Afghanistan, Italy, Iran, Romania, Switzerland and USA covering income of enterprises operating aircraft; with Romania the agreement covers shipping also.

Certain categories of foreign technicians are exempt from taxation of their salaries up to a specified amount for a limited period.

Individuals of foreign nationality who are resident in India are allowed a straight deduction of a specified amount in the computations of their total income for the expenses incurred by them on the education of their dependent children abroad.

Individuals of foreign nationality are exempt from tax on the perquisites represented by the value of a free or concessional passage allowed to them by the employer for their proceeding on home leave out of India.

## Free Trade Zones: Concessions

(1) Kandla Free Trade Zone was set up primarily with the objective of facilitating the production of goods at competitive rates for foreign markets and to ensure that the entire production is exported. The zone has, therefore, been developed as a full-fledged industrial estate with all the attendant facilities needed for setting up of factories. Special facilities are available to non-residents who can invest in joint stock companies, partnerships or proprietorships and also in purely trading or commercial activities. The restrictions applicable to foreign investments in other parts of the country will not be applicable to industries set up in the zone. The stipulation that the non-resident entrepreneurs should progressively associate Indian participation will also not be applicable and repatriation of capital will be allowed according to the existing rules. Foreign exchange holdings will be permitted to be brought into the Kandla Free Trade Zone and customs clearance permits for plant and machinery will be issued against the applicant's own foreign exchange, without requiring any clearance from the Directorate General of Technical Development.

(2) Santa Cruz Electronics Export Processing Zone (SEEPZ),

Bombay, permits foreign investment for the manufacture of items with relatively high specifications leading to the appreciable contribution by way of "value added" 100 per cent foreign companies and their subsidiaries or joint ventures may be permitted for items requiring high technological skills and marketing capability. The capital invested may be repatriated at any time to the extent of original investment. Any part of the profits derived from investments and ploughed back to the projects with the approval of the Government will be treated as investment for purpose of permitting repatriation. There are no restrictions on repatriation of profits or dividends earned.

The foreign investors are entitled to the following additional benefits under the laws.

## Concessional Tax Treatment on Royalties and Technical Services Fees Received by a Foreign Company

Hitherto net income from royalties received under an approved agreement was taxed in the hands of foreign companies at a concessional rate of 52.5 per cent inclusive of surcharge as against the general rate of 73.5 per cent. Similarly, fees for technical services received by foreign companies under approved agreements entered into by foreign companies with Indian concerns after March 31, 1976 will be chargeable to tax at the flat rate of 40 per cent on the gross amount of such income.

Lump sum payments received by foreign companies under approved agreements for the supply of industrial know-how (designs, drawings, documentation, etc.) outside India will now be taxed at 20 per cent of the gross amount of such payments. Lump sum royalties paid to non-residents outside India will, however, continue to be exempt from income-tax as hitherto in cases where such payments are received under agreements made before 1st April, 1976, and approved by the Government. Such payments received under agreements made after 31st March, 1976, would also be exempt from tax in cases where such agreements have been made in accordance with the proposals approved by the Central Government before 1st April, 1976. In the hands of foreign companies this exemption would be applicable, if they exercise an option that such agreements may be regarded as one made before 1st April, 1976.

In regard to income by way of royalties and fees for technical services received by foreign companies under approved agreements made before 1st April, 1976 the deduction in respect of expenses admissible against such income will now be limited to 20 per cent of the gross amount of such income. The net income will then be subjected to tax at 52.5 per cent.

*Taxation of Dividends in the Case of Foreign Companies*

Income by way of dividends received by a foreign company was hitherto taxed on net basis i.e. after allowing a deduction in respect of expenses incurred by the company in earning such income. Foreign companies were also entitled to a deduction equal to 65 per cent of the dividend income received from domestic companies. This gave an effective rate of 25.75 per cent on the dividend income included in the taxable income of the foreign companies. The Finance Act, 1976, has provided that no deduction will be allowed in computing the dividend income received by a foreign company and the gross amount of dividend will be charged to tax at 25 per cent.

*Exemption from Surtax in Certain Cases*

In the case of a non-resident company, which has not made the prescribed arrangements for the declaration and payment of dividends within India, its income by way of interest or royalties and technical services fees, received from Government or a local authority or any Indian concern is not charged to surtax.

*Tax Exemption of Foreign Technicians*

Remuneration of a foreign technician is exempt from income-tax for a period of 24 months from his arrival in India provided his contract of service is approved by the Government. Application for approval can be made either before the commencement of service of the technician in India or within six months thereof. A foreign technician would continue in employment for a further period of 24 months beyond the initial period of 24 months without paying tax on his salary, if his employer paid the tax thereon and the Government approves the contract of service for the extended period. The perquisite value represented by the tax paid by the employer is also exempt from tax in the hands of the technician. The remuneration that will be exempt from income-tax

for the first 24 months is, however, limited to Rs. 4000 per month only. In case the employer pays tax on the amount of remuneration in excess of Rs. 4000 per month, the tax paid by the employer will not be assessed in the hands of the foreign technician as his perquisite. In other words, a foreign technician will not have to pay any tax even if his remuneration exceeds Rs. 4000 per month.

## Tax-free Interest on Loans

Interest on moneys borrowed from a foreign source and brought into India in cash or in kind is normally taxable in the hands of the non-resident recipient. However, the interest payable by the following is exempt from tax :

(i) Government or a local authority on moneys borrowed by it from sources outside India;

(ii) An industrial undertaking in India, if moneys have been borrowed by it under a loan agreement entered into with any such financial institution in a foreign country as may be approved by the Government;

(iii) An industrial undertaking in India, if moneys have been borrowed or debt incurred by it in a foreign country for purchase of plant and machinery or raw materials outside India. The exemption is allowed to the extent of the rate of interest approved for this purpose by the Government in each case, having regard to the terms of the loans or debt and its repayment. Such approvals are accorded by the Department of Revenue in the Ministry of Finance;

(iv) An industrial undertaking in India on any moneys borrowed by it in foreign currency from sources outside India under an approved loan agreement keeping in view the need for industrial development in India and to the extent to which such interest does not exceed the amount of interest calculated at the rate approved by the Government;

(v) IFCI, IDBI and ICICI on moneys borrowed from sources outside India as per approved agreements in regard to the rates of interest and terms of loans and its repayment;

(vi) Any other financial institution or a banking company established in India or loans raised in foreign countries under approved agreements for the purpose of advancing

loan to industrial undertakings in India, for importing raw materials or plant and machinery or the goods which the Central Government may consider necessary to import in the public interest.

*Exemption of Interest on Deposits in a Non-resident Account in India*

The non-residents are exempt from tax on income from moneys standing to their credit in a Non-resident (External) Account in any bank in India, provided the deposits have been made and the account has been maintained, in accordance with the Foreign Exchange Regulation Act, 1973, and the Rules made thereunder.

*Deduction of Education Expenses of Children of Foreigners*

A non-Indian resident individual is allowed deduction from the computation of the taxable income in respect of the amount spent by him for the full time dependent children (not above 21 years in age) in institutions outside India. The permissible deduction is Rs. 1500 in case of one child and Rs. 3000 in case of more than one child.

*Exemption of Leave Passage*

In the case of an employee who is not an Indian citizen, passage moneys or value of free or concessional passages received by him, for himself, wife or children in connection with his proceeding on home leave out of India are exempt from tax subject to certain conditions.

*Exemption to Foreign Employees Serving a Foreign Enterprise Temporarily in India*

The remuneration received by an individual, who is not a citizen of India, from a foreign enterprise for services rendered in India during a temporary period of stay not exceeding 90 days in any year, is exempt from the tax provided :

(i) the foreign enterprise is not engaged in any trade or business in India, and
(ii) such remuneration is not liable to be deducted from the income of the employer chargeable to tax in India.

*Exemption of Remuneration Received by Foreign Trainees in Government Establishments, etc.*

Remuneration received by employees of foreign states during their stay in India in connection with their training in any establishment or office of the Government or any public sector undertaking is exempt from income-tax.

*Exemption from Income-tax in Regard to a Non-resident's Income from Goods Purchased in India for Export*

In the case of a non-resident, no income is deemed to accrue or arise in India to him through or from operations which are confined to the purchase of goods in India for the purpose of export.

*Exemption from Income-tax on Remittance of India*

Remittances to India out of foreign profits or out of capital are completely exempt from income-tax laws of India.

*The Foreign Exchange Regulation Act*

As per the Foreign Exchange Regulation Act, foreign equity participation in Indian companies is allowed on the following basis :

| | *% of equity permitted* |
|---|---|
| 1. 100 per cent export-oriented companies | More than 74% (each case to be decided individually) |
| 2. Where activity in a combination of the core sector, sophisticated technology and exports is at least 75% of turnover | 74 per cent |
| 3. Where activity in a combination of the core sector, sophisticated technology and exports is between 66 per cent of turnover, and exports represent at least 10 per cent of turnover | 51 per cent |
| 4. Where exports represent 40 per cent of turnover | 51 per cent |

| | |
|---|---|
| 5. Companies which do not qualify under Items 1-4 | 40 per cent |
| 6. Companies involved in substantial exports requiring a higher foreign equity holding than is permitted | Each case decided individually |
| 7. Companies whose activities outside the core sector do not exceed 25 per cent of the ex-factory value of annual production or Rs. 5 crores, whichever is less (this does not apply to the manufacturing activities of multiactivity companies) | Existing per cent |

*Dilution Formula for Expansion of Indian Companies with Foreign Equity*

| Foreign equity | Additional equity which may be foreign-held in the event of expansion |
|---|---|
| Over 75 per cent | 60 per cent |
| 60 — 75 per cent | 66⅔ per cent |
| 51 — 60 per cent | 75 per cent |

*Chapter 17*

# MULTI-FACETED MULTINATIONAL CORPORATIONS

UNILEVER, SHELL, SONY, IBM, SINGER, DUNLOP—all these names and thousands like them are now a part of the landscape in almost every corner of the world. These names belong to multinational corporations, and together they represent a total international investment of over $ 300 billion. By any reckoning this is a huge pile of money. Small wonder MNCs, as they are called in short, have now become a major fact and force in international economic life.

What are multinational corporations? Several authorities have defined MNCs in several ways and there is not one definition accepted by all. A MNC, some say, is an enterprise which owns or controls producing facilities such as factories, mines, oil refineries and distributive channels in more than one country. According to one definition a MNC is one with sales above $ 100 million with operations in at least six countries and with subsidiaries accounting for at least 20 per cent of its assets. About 4000 companies come under this definition accounting for as much as 15 per cent of world production. The United Nations has defined a multinational corporation as "an enterprise which controls assets, factories, mines, sales offices and the like in two or more countries." Most of the MNCs are essential extensions of national enterprises controlled by a single national centre, in so far as the level of investment and international remission of profits is concerned.

In brief, MNCs are business enterprises having a network of operations in many countries with centralized decision-making authority and global strategy and conducting manifold businesses. Some economists refer to MNCs as economic leviathans which by their power, actual and potential, control the destinies of millions. The most influential, both in terms of number and size are based in America; the capacity of these MNCs to grow is about 10 per cent per year as fast as the world's GNP and faster

than the growth of world trade. Though the MNCs existed in the 19th century, they reached their zenith in the fifties and the sixties influencing many countries. In 1950 the book value of the direct overseas investments by American firms were estimated at $ 11,800 million. In 1972 this figure had increased over eight times to $ 94,000 million. In 1970 the holdings by MNCs abroad were estimated to have reached the astronomical figure of $ 150 billion.

## Growth Pattern

The pattern of growth of MNCs has been described as "dramatic". Today, the estimated level of production of MNCs exceed $ 750 billion per year and is greater than the GNP of any country except the USA. What is more, this production is increasing by 10 per cent a year, compared to an average of 4 per cent for non-MNCs. One projection shows that by the year 2000 the output of MNCs will constitute much more than the total world production. The MNCs have invested two-thirds of their investment in the developed countries, and the remaining one-third in the developing countries.

The geographical distribution of MNCs shows an interesting pattern. If the distribution by the origin of enterprise is considered, it is seen that in 1966, 55 per cent of the multinationals were of US origin, 20 per cent British while about 25 per cent were of European or Japanese origin. A careful perusal will further indicate that a large proportion of the MNCs' investment is oriented towards safeguarding supplies of raw materials and natural products like crude oil, copper, tin, and iron ore for use in the developed countries. Occasionally, MNCs make investment not only in the extraction of these materials, but also in processing them in the country of origin. Another type of investment by the MNCs is in the manufacture of goods requiring a large amount of labour. The final type of investment by the MNCs is the extraction or manufacture for the ultimate use in the host country.

MNCs offer capital, knowledge of the market, economies of scale, modern technology, management techniques, tax revenue, production, employment as well as consumer benefit. A multinational corporation brings in capital which would not otherwise be available. The Corporation absorbs the risks of the project.

If it works, it will make money, but if it fails, the country is not saddled with a fixed debt. It is evident that MNCs take advantage of raw material availability and lenient labour laws prevalent in most of the less developed countries. They create internationalization of production by transferring the raw materials in one group of countries with the labour and plant facilities in others to manufacture goods and sell these in markets. The fruits of science in the form of instant communications, quick transport, computerization, modern managerial techniques, etc. have been helping them in reshuffling resources and altering the pattern on a month-to-month basis in response to costs, prices and availabilities. The political boundaries of nations and States are too narrow and constrictive to provide adequate scope for their large-scale operations.

MNCs have been spreading in the world with substantial freedom, producing and selling their goods in a multiplicity of national markets, begetting corporate offsprings of various nationalities. Peter Drucker, the world-renowned management expert while referring to the role of MNCs has said: "The multinational corporation has a clear self-interest in the multiplier impact of its investment, products and technology. It would be well-advised to look on the capital it provides as "pump priming" rather than as "fuel". The more dollars (or pesos or rupees) of local capital each of its own dollars of investment generates, the greatest will be the development impact of its investment and its chance of success."

## UN Report

Of late there has been a raging controversy about the real intentions of floating MNCs in other lands. Yet the originating feature should be as innocent as the instinct for survival. With no home market to speak of, this was the only way in which they could create business of a significant size. In 1973, however, the United Nations by its Resolution took note of the growing size of the MNCs and recommended a study in depth of the rise of MNCs and its impact on trade and development of other countries in all its inter-connections. A group of eminent persons led by Mr. L. K. Jha submitted a report on the subject in June 1974. Some of the important points made in the Report were:

(1) international corporations are organized largely beyond the control of any single government;

(2) their overall goal is world-wide profits without regard for what is best for an individual country;

(3) the interests of the country where a subsidiary is established for the development of export markets are subjected to the market interests of the parent company;

(4) parent companies do not make the most modern technology available to their subsidiaries;

(5) international corporations prevent the growth of locally-owned enterprises by aggressive and unfair competition.

Mr. Jha referred to the question of "fair and equitable" treatment to the multinational corporation once it has been established in the approved lines of production. He advised that as entities incorporated within the national territory of a country, they must be treated as nationals over a wide area and enjoying equal protection of the law of the land and subjected to the same kind of discipline as indigenous enterprises. In case of nationalization, provision should be made for fair compensation, and he further observed that "an investor who has no faith in the national laws of a country would be wiser to keep out of it."

Both the United Nations and the Organization for Economic Co-operation and Development (OECD) have sought to influence the activities of the MNCs. After working for more than two years on a set of guidelines, the OECD Ministers signed in 1976 an investment agreement to influence the behaviour of both the foreign investor and the host country. The agreement included a list of guidelines defining standards of good business conduct to be pursued by the MNCs—an assertion that foreign-controlled and national enterprises be accorded equal treatment. The agreement also requests companies to provide information on a regular basis pertaining to direct and indirect holdings of the company, sales by geographical area, intra-group pricing policies, and a statement on the firm's sources and use of funds. The United Nations, through the UN Commission on Trans-National Corporations, is giving priority to the development of a code of conduct for the MNCs and for also the creation of an information system relating to international investment.

## Restrictions on Activities

The developing, borrowing countries have introduced various measures and policies to enhance the value of capital flows in the developing process. These include limiting investment to certain sectors, requiring participation of local capital and management, requiring the training and use of local labour, and in general, requiring the activities of the foreign investor, contribute to the general welfare of the host country. Most developing countries have actively wooed multinational corporations and at the same time restricted their activities.

## MNCs in India

How does the Indian Government look upon the MNCs? In India there are at present about 540 branches of MNCs operating besides 188 subsidiaries of foreign companies. They have considerable amounts of investment in the prominent sectors like pharmaceutical and fertilizers. Technical collaboration with global enterprises figure prominently in machine tools, electronics, chemicals, etc. There are several statutory provisions and administrative measures available to the Government to regulate the activities of MNCs. The foremost is the Foreign Exchange Regulation Act (FERA). The Government's policy clearly says that MNCs will operate within Indian laws and the courts will have jurisdiction over them. The Janata Government was perhaps more anxious than the previous regime in inviting foreign capital to assist industrial development. This has been made explicit on several occasions. The Government has already modified the FERA regulations to the extent that a foreign company which has diluted its equity to 40 per cent will be treated on par with other Indian companies. This itself is a concession which should attract multinational corporations. This also removes constraints on the expansion of foreign companies operating in India.

## Misgivings

The MNCs look upon FERA with strong misgivings. The purpose of FERA was never to drive away foreign capital but to induce and expand it in priority areas. In the past few years some of the

MNCs were found suffering from a certain stagnation. Many of them were making higher surpluses. This enabled them to bring up sizable resources together with repatriation of profits. But they were finding it difficult to energize their reserves and put their enlarged resources into new business investments because of the stipulation that their expansion plans must conform to priority criteria laid down for investment.

The priority requirements have now been suitably modified with the result that dilution of foreign equity is now considered good enough by itself to qualify for expansion. The Government welcomes foreign capital and know-how in areas it considers vital for further progress. The new Industrial Policy assures MNCs complete freedom for remittances as profits, royalties, dividends, as well as repatriation of capital "subject to rules and regulations".

### Monitoring Activities

Due to historical reasons a multinational corporation becomes a suspect. This is also the main reason why almost all developing countries have laws for monitoring their activities. In our country much of the criticism of MNCs stems from the premise that they reap excessive profits, leading to huge repatriation of capital. This is however very much exaggerated. For instance, the total pre-tax profits of foreign companies in India do not exceed Rs. 100 crores. The post-tax profit figure comes down to about Rs. 35 crores. After retention, foreign remittances on account of dividends are "generally less than Rs. 20 crores." By fostering the growth of the host country's economy, MNCs will also have a multiplier impact on their investment, product and technology. There is thus a mutuality of benefit. One study recommends that "the most advantageous strategy for developing countries would be to pursue a policy on a global basis to develop large productive facilities with access to markets in the developed world which have a high per capita income and purchasing power thereby providing a wider market."

### Technology Input

Foreign technology is essential if a developing country wants to improve its capabilities. Technology is a resource that comprises

knowledge, skills and means for using, controlling and maintaining the factors of production. The Government policy welcomes continued inflow of technology, particularly in sophisticated and high priority areas where Indian skills and technology have not been adequately developed. Again, the Government would give preference in the acquisition of such technologies by outright purchases. This policy is being pursued essentially in the world as also with the ultimate view to facilitating the process of adaptation of such technologies "to suit the country's needs".

Indian companies which are permitted to import foreign technology are required in appropriate cases to establish adequate research and development facilities so that the imported technologies are simultaneously adapted and assimilated. The Government allows the continued payments of royalties. However, it is not opposed to the payment of higher rates of royalties in addition to equity participation and lump-sum payments towards know-how, drawings, designs, documentation, erection, commissioning etc.

## Their Relevance

It is now realized that in order to make themselves relevant to the needs and aspirations of the developing countries, the MNCs must adapt themselves to the changing environment. With their well-defined management policies and their penchant for optimization of human resources, MNCs are expected to provide a highly satisfying experience to the Third World. There is sufficient room for them if they are to concentrate in areas which are primarily export-oriented or which require a high degree of sophisticated technology which is not available locally. With India's population growing at 2.5 per cent each year and with the availability of surplus manpower, MNCs can certainly help in terms of exploiting the country's untapped natural resources. We have an abundant supply of raw materials and comparatively cheap labour. There are even today certain critical shortages in the form of technological gaps and inadequate export policy. MNCs have a definite role to play in bridging these gaps.

*Chapter 18*

# WELCOME BACK, BROTHERS AND SISTERS!

## (Non-resident Indians)

I AM EXTREMELY proud of Indians abroad. Not many in India share my pride. I can understand this. Not all are fully aware of the contribution Indian citizens and aliens of Indian origin make to the industrial growth of the country. Remittances by Indians abroad continue to swell. In 1974, a monthly average remittance was about Rs. 50 crores. It rose to Rs. 90 crores a month in 1975. In 1978 a monthly average remittance jumped to about Rs. 200 crores. Most of them who have acquired sufficient financial resources and technical skills are also keen to return to their country of origin and set up their own industries. The Government of India have been giving them a number of facilities and concessions to attract remittances and investments from non-resident Indians.

Recognizing the role that they can play in the industrial development of the country by bringing in their own foreign exchange, technical skills and entrepreneurship combined with knowledge of international markets, the Government of India has announced a very liberal scheme to encourage non-resident Indians to invest in India in the priority sectors and in export-oriented industries. A number of concessions have been allowed to such persons intending to return to India for permanent settlement. Incentives and concessions have also been provided to them for setting up their own industrial units in India either independently or in collaboration with resident Indians. These facilities can be broadly classified into opening and maintaining of non-resident accounts, investing in units of Unit Trust of India, government securities, National Plan Certificates, facilities for direct investments in industrial ventures, facilities for acquisition of immovable property and special facilities for the import of machinery, raw materials and components by overseas Indian nationals for the purpose of setting up industrial units in India.

## Facilities with Rights of Repatriation

Persons of Indian nationality or origin residing outside India can open with authorized dealers in India a Non-resident (External) Account designated in Indian Rupees. The funds are required to be transferred to India through banking channels either from the country of residence or from any other country except Bulgaria, Czechoslovakia, East Germany, Hungary, North Korea, Poland, Rumania and Soviet Russia. This facility is also available to Government servants posted abroad on duty with the Indian Missions and other Agencies. Government servants deputed abroad on assignments with foreign Governments or regional and international agencies like the World Bank, International Monetary Fund, World Health Organization, etc. and officials of State governments and Public Sector Undertakings deputed abroad on temporary assignments or posted to their branches or offices abroad are also extended the facility.

The holders of the Non-resident (External) Accounts in India enjoy the following facilities :

1. The income accruing on the balances in the accounts is free of Indian income-tax.
2. The account-holders have the freedom to repatriate the balances, along with the interest accrued thereon outside India at any time without reference to the Reserve Bank of India.
3. Interest accruing on the accounts may be credited to the accounts freely by authorized dealers.
4. Debits to the accounts for local disbursements are freely permissible.
5. Purchase of units of the Unit Trust of India, Government securities and National Plan/Savings Certificates from out of the balances in these accounts may be made freely.
6. Dividend/interest on and sale/maturity proceeds/repurchase price of the units, securities or certificates are allowed to be credited to the External Accounts, on application to the Reserve Bank of India.

## Non-resident (External) Accounts in Designated Foreign Currencies

In the case of External Accounts designated in Indian rupees conversion is made to foreign currency at the rate of exchange prevailing at the time of remittance outside India. The risk on account of the fluctuations in the rate of exchange is borne by the depositor. A new scheme has now been introduced under which the non-residents can also open External Accounts designated in pound sterling and US dollars. This eliminates the risk on account of fluctuations in the rate of exchange of the Indian rupee vis-a-vis these two foreign currencies. These foreign currency accounts are maintained in the currencies in which the remittances are received and funds are repaid to the account holder, or transferred elsewhere under his instructions, in the same currency.

## Facilities for Investment in Units of Unit Trust of India, Government Securities and National Plan Certificates

The Non-residents of Indian origin can invest in a number of Institutional Savings Schemes such as:

(1) Units of the Unit Trust of India provided these are purchased direct from the Unit Trust of India or through their authorized agents.
(2) Indian Government Securities provided the securities are purchased on a Stock Exchange in India or direct from the Reserve Bank of India (Public Debt Office), and
(3) National Plan Certificates provided these are purchased from an Indian Post Office. Prior approval of the RBI is not necessary for making these investments. Interests/dividends on and sale/maturity proceeds of the above types of investments is/are freely remittable to the country of permanent residence of the investor provided these investments are made out of the funds received from outside India or out of the deposits held in the Non-resident (External) Account. The entire dividend income from Units of the Unit Trust of India purchased by Non-residents out of the amount remitted by them from abroad or from the balances in their Non-resident (External) Account will be free from income-tax.

## Facilities for Direct Investment in Industrial Ventures

The Non-residents who want to invest in industrial projects in India while retaining the right of repatriation of the capital invested and profits earned thereon can do so only within the framework of Government's policy towards foreign investment and collaboration. The Government allows foreign investment on a selective basis having regard to such factors as the priority of the industry for the country, the nature of technology involved, whether it would enable or promote exports which may otherwise not take place and the alternative terms available for securing the same or similar technology. The profits accruing on such investments as well as the capital invested including profits ploughed back and any appreciation in the value of the original investment are allowed to be repatriated.

## Investment in New Issues

According to a decision taken recently by the Government, the Non-resident Indians/persons of Indian origin resident abroad have been permitted to invest in the equity issues of the new companies in a wide range of industries in the large, medium and small-scale sectors. The total investment by one or more Non-resident Indians under the scheme, however, will not exceed 20 per cent of the total equity capital of these new companies. The amount invested in this manner along with income accrued thereon is allowed to be repatriated subject to the applicable taxes provided that such investment is made by remittances from abroad through approved banking channels or out of funds held in the Non-resident (External) Accounts. The investment by non-resident Indians under the scheme would be in addition to any foreign equity investment that may be permitted by the Government in the company concerned.

## Investment in Priority/Export-oriented Industries

The Government has recently introduced a substantially liberal scheme to encourage Non-resident Indians to set up industrial units. They are now allowed to make equity investment up to 74 per cent and without any minimum limit :

(1) in any one of the priority industries;

(2) in any other industry provided they give an undertaking to export at least 60 per cent of the total output;

(3) in any industry reserved for the small-scale sector if the export commitment is 75 per cent of the total output.

For setting up these industries, the Non-residents are allowed to import capital equipment upto the list of foreign exchange brought by them without having to obtain indigenous clearance from Directorate General of Technical Development (DGTD). They are given liberal facilities for the import of permissible raw materials and components in terms of the import policy in force. Remittances of profits in industrial units set up under this scheme are allowed freely, while the repatriation of capital is permitted after the unit has gone into commercial production and subject to adherence to export obligations where applicable. Exemption from wealth-tax is also available for investment under the scheme to such Non-residents who return to India with the intention of permanently residing in India.

## Investment in Free-Trade Zones

The two Free Trade Zones, one at Kandla (Kandla Free Trade Zone) and the other at Santa Cruz, Bombay (Santa Cruz Electronics Export Processing Zone), which have been established primarily with a view to promote exports, provide opportunities for investments by Non-residents of Indian origin. In these zones they are permitted to invest upto 100 per cent of equity capital or in any form of organization that they like, i.e. joint stock companies, partnerships or proprietorships. Capital investments in the Government approved projects set up in these zones may be repatriated at any time to the extent of original investments. There are also no restrictions on the remittances of profits and dividend earned by Non-residents from the projects set up in these zones. Import of plant and machinery needed for setting up manufacturing facilities in these areas are permitted freely against the applicant's own foreign exchange resources and the Customs Clearance Permits are issued for their import without requiring any clearance from the DGTD. The industrial units

set up in these zones have, however, to be 100 per cent export-oriented.

While in the Kandla Free Trade Zone one can set up any type of industry and can invest in purely trading and commercial activities, in the Santa Cruz Electronics Export Processing Zone units manufacturing only electronic items are allowed to be established. With a view to encourage investment in these two zones the Government has arranged for a number of infrastructural facilities such as land and factory sheds at concessional rates, water and electricity supply and adequate transport arrangements. There are also facilities for getting institutional finance while a number of tax and other incentives such as exemption from Customs and Excise Duties, rebate on income-tax, transport subsidy, etc. are also being provided.

### Investment in Joint Stock Companies

Investments in joint stock companies, public or private are permitted in any field of activity and to any extent. Such investments may be in the form of loan, deposits or the acquisition of shares. Investment in shares of companies may be either in fresh issues of shares by Indian companies or by way of purchase of existing shares on the stock exchange. The Non-resident Indians can also form a separate joint company but in such cases they have to give an undertaking to progressively associate resident Indian participation upto at least 49 per cent within a period of 5 years.

### Investments in Proprietorship and Partnership Concerns

Investments are also permitted in proprietorship and partnership concerns subject to the following conditions:

(i) The concern and also its partners (Non-resident and resident if any) should notify their respective addresses to the Reserve Bank of India/Government of India and should immediately notify to the same authorities any change in address that may subsequently occur.

(ii) The account should be maintained in such manner that they give a true and fair picture of all the transactions of the firm.

(iii) The books of account should be preserved in good order for a period of not less than 8 years.

(iv) The concern should have its accounts audited annually by qualified accountants competent to audit the accounts of limited companies.

### ACQUISITION OF IMMOVABLE PROPERTY IN INDIA

Indian nationals abroad are not required to obtain the permission of the Reserve Bank of India for acquiring immovable property in India. Persons of Indian origin, however, require the permission of the RBI for such acquisition. They are normally allowed only one immovable property in India. The relatives of Non-resident Indians and persons of Indian origin who have remitted foreign exchange in favour of relatives in India from their earnings in foreign exchange, for purchase of motor cars, scooters, agricultural tractors, cement are eligible to apply for priority allotment.

With a view to encourage scientists, technologists and engineers who are working abroad and are interested in returning to India for setting up some industries here, the Government has introduced a Package Scheme under the auspices of the Council of Scientific and Industrial Research. The CSIR would advise them not only about the suitability of the project but would also assist them in getting industrial licence for import of machinery, allocation of land and other infrastructural facilities.

The incentives granted recently in April 1976 supplement those made available earlier. These remove some of the procedural constraints hampering the inflow of capital. Some of the incentives announced in August 1975 have now been liberalized. The area of investment identified is wide and diversified. All the industries are capital-intensive for which enough capital is not available within the country. Non-resident Indians in India are now permitted not only to repatriate their profits but also their capital. Furthermore, they would be free to withdraw their capital and re-invest it elsewhere. This should overcome the shyness of capital amassed and give an opportunity to get it gainfully employed in new industrial ventures.

The main features of the new scheme are :

(1) Investment is allowed in any of the following industries—

metallurgical industries (ferro-alloys, steel castings and forgings, special steels, non-ferrous metals and alloys); boilers and steel generating plants; prime movers (industrial turbines, internal combustion engines); electrical equipment (equipment for transmission and distribution of electricity, electrical motors, electrical furnaces, X-ray equipment, electronic components and equipment).

(2) Transportation (mechanized sailing vessels, ship ancillaries, commercial vehicles); industrial machinery; machine tools; agricultural machinery, tractors and power-tillers, earth-moving machinery.

(3) Industrial instruments; indicating, recording and regulating devices for pressure, temperature, rate of flow, weights, level and the like; scientific instruments.

(4) Nitrogenous and phosphatic fertilizers; chemicals (inorganic heavy chemicals, organic heavy chemicals, fine chemicals, including photographic chemicals, synthetic resins and plastics, synthetic rubbers, man-made fibres, industrial explosives, insecticides, fungicides, wedicides and the like, synthetic detergents, miscellaneous chemicals (for industrial use only).

(5) Drugs and pharmaceuticals; paper and pulp including paper products; automobiles, tyres and tubes; glass; ceramics (refractories, furnace lining brick amidic, basic and neutral); cement products.

Investment is now allowed in any other industry, provided the investor undertakes to export 80 per cent of the output, or in the case of industries reserved for the small-scale sector, 76 per cent of the output. Import of capital equipment is allowed without indigenous clearance upto the limit of foreign exchange brought in by the Non-resident Indian. Liberalized facilities for import of permissible raw materials and components are available in terms of the import policy in force. Remittances of profits in industrial units set up are allowed, while the repatriation of capital is permitted after the unit has gone into commercial production and subject to adherence to export obligations, wherever applicable.

This, you will concede, is quite a wide range of incentives and will lure thousands of Non-resident Indians to invest in Indian industries.

*Chapter 19*

# IIC—CENTRE OF GRAVITY

THE INDIAN INVESTMENT CENTRE was set up in November 1960, as an autonomous body primarily designed to stimulate the flow of foreign private capital and technical know-how into India within the framework of Government's policy. The activities of the IIC have to a considerable measure facilitated the import of technical know-how in important segments and the inflow of foreign private capital accompanied by the managerial skills and marketing techniques. Although the investment of foreign private capital and import of technical know-how is now permitted only in selective fields, there still exists a wide technological gap in various sophisticated industries. The IIC continues to bridge these technological gaps by obtaining suitable collaborations for joint ventures in India. At the same time, it also disseminates information on commercially viable indigenous technologies to prospective investors.

Initially, the activities of the centre related mainly to the promotion of foreign investment in India, the import of technology from the developed countries. Over the years, however, the scope of its activities has become much wider to cope with the chances arising out of the developments that have since taken place in the industrial and technological spheres in the country.

The Centre, through its overseas offices located at London, New York, Duesseldorf and Tokyo, continues to disseminate information among the overseas investors about India's economic policies and procedures and assist in arranging suitable collaboration between the foreign companies having the requisite technical know-how and the Indian entrepreneurs and/or the public sector undertakings.

It is also playing an important role in promoting Indian joint ventures in other developing countries. Recognizing the role that an agency like the IIC can play in the promotion of joint ventures, and in the third country projects, it has been designated as the focal point for the exchange of information and rendering of

necessary guidance. It has also been functioning as the focal point for assisting the non-resident Indians ever since the Government announced special facilities and concessions to attract non-resident Indian investment in India (see Chapter 18).

Another important activity which the Centre has taken up in recent years is the Entrepreneurial Development Programme to develop and foster local entrepreneurship particularly in the backward areas and to encourage and guide small entrepreneurs to set up industrial units.

The total number of foreign collaboration agreements that have materialized through the efforts of the IIC since its inception comes to 555. During the year, 1977-78, 30 foreign collaboration proposals assisted by the Centre at its Headquarters and overseas branch offices received approval of the Government of India. The collaborations cover diverse fields like the manufacture of tungsten and molybdenum wires, carbon cathodes, blocks and allied products, explosives, cylindrical and needle roller bearings, melamine, nitric acid, etc. The countries from whom technology is to be acquired for the manufacture of the different items include U.S.A., U.K., Federal Republic of Germany, Japan, Austria, Belgium and Sweden.

## Assistance to Public Sector Undertakings

IIC's assistance to entrepreneurs has taken various forms over the years. At the instance of the Bureau of Public Enterprises, the public sector undertakings are availing of the services of the Centre in locating suitable foreign partners to obtain technological skills and in negotiating terms of collaborations, etc. The public sector undertakings have been utilizing the services of the IIC for the identification of items for setting up manufacturing capacity, preparation of feasibility reports and the location of suitable foreign collaborators. During the year 1977-78, the IIC was approached by the State Industrial Corporations of Andhra Pradesh, Bihar, Himachal Pradesh, Karnataka, Kerala, Maharashtra, Meghalaya, Orissa, Punjab, Tamil Nadu, Uttar Pradesh and other public sector undertakings like Triveni Structurals, Indian Dairy Development Corporation and Hyderabad Allwyn Metal Works. The Centre provided data and other relevant information for the products which these organizations wanted

to take up for manufacture and also initiated action for the location of suitable foreign collaborations. In some cases negotiations with overseas firms for the transfer of technology are in an advanced stage of materialization.

## Joint Ventures Abroad

An important bottleneck in the promotion of joint ventures is the lack of information among the Indian entrepreneurs about the investment opportunities, policies and procedures, exchange control regulations, taxation laws etc. of the other developing countries while the entrepreneurs in these countries have no idea about the capabilities of the Indian manufacturers, their technical expertise, financial status, etc. The IIC both at the Headquarters and the overseas offices has been identifying opportunities and providing background information on terms and conditions on which joint ventures are permitted in various developing countries to Indian entrepreneurs. Latest information on these various aspects is being systematically maintained in its library for as many as 93 countries.

During the year 1977-78, IIC brought out a new publication *India Offers Technology* containing detailed background information for 61 Indian firms with the main objective of enlightening the entrepreneurs in other developing countries about the technical competence of the Indian manufacturers and their capabilities to set up joint ventures in those countries.

The IIC has also been assisting and guiding Indian entrepreneurs who have shown interest in setting up joint ventures in those countries while the entrepreneurs from the other developing countries have been utilizing its services for location of suitable Indian partners. During the year 1977-78, 52 enquiries for setting up joint venture projects in other countries for the manufacture of specific products were received from Indian parties while 42 enquiries for finding suitable Indian collaborators were received from the entrepreneurs in other developing countries. The countries which have shown interest are Thailand, Sri Lanka, Tanzania, Ghana, Guyana, Nigeria, Malaysia, Afghanistan, Yemen, Saudi Arabia and Bangla Desh. Already 15 IIC sponsored joint ventures are under implementation.

## ASSISTANCE TO NON-RESIDENT INDIANS

In order to attract non-resident Indians eager to return home to set up industrial ventures, liberal concessions have been made in the import policy to allow import of machinery and raw materials out of their foreign exchange earnings. To enable such entrepreneurs to make investment decisions and plan their future activities the IIC provides them full background information about the prospective line of production and suitable locations and Government policy and procedures. The branch offices of the IIC in overseas countries are taking keen interest in encouraging non-resident Indians in establishing industries by various ways. The IIC as the focal point and the co-ordinating agency has been giving due publicity to the facilities offered by the Government of India to the non-resident Indians through its published literature, contacts with associations of non-resident Indians in other countries and by arranging meetings and seminars. The Centre has also been providing to the non-resident Indians effective assistance and guidance in the selection of projects, filling up of application forms and the clearance of their cases by various government agencies.

The number of enquiries received from non-resident Indians increased by about 40 per cent from 2.099 in 1976-77 to 2,800 in 1977-78. These enquiries were from countries such as USA, UK, West Germany, Switzerland, Oman, Singapore, Fiji, Ireland, Ghana, Zambia, Dubai, Nigeria, Indonesia, Rhodesia, Saudi Arabia, Abu Dhabi, etc. During the year, the Centre forwarded 40 applications from the non-resident Indians for the import of plant and machinery. The overseas offices of the IIC are playing a particularly important role in assisting the non-resident Indians. Besides giving on-the-spot guidance to the non-resident Indians in these countries, they have also to provide feed-back to the concerned authorities in the Government of India, the State Governments and other concerned agencies about their problems and requirements. This helps not only in the effective implementation of the programmes but also in making such policy or procedural changes as are considered necessary. IIC is assisting non-resident Indians in identifying items, filling of applications for letters of intent, approval for foreign collaboration, if any, import of capital goods, etc. A separate cell has been set up in the IIC to assist such entrepreneurs, bring out profiles on items having opportunities, and also closely

co-ordinate with authorities, in the Central and State Governments, so that decisions on applications submitted by such entrepreneurs are expedited.

## Entrepreneurial Development Programme

The IIC has made a modest beginning in developing local entrepreneurship particularly in the backward areas of the country. The first training course for the development of entrepreneurship was organized at Calcutta during 1974-75. The objective of the course was not only to motivate the potential entrepreneurs to undertake the training but also to assist them in establishing their own industries. The course which was of the duration of one year was attended by 20 entrepreneurs, out of which 14 were able to establish their own units. Encouraged by this achievement more courses were started in September 1977. The success of the IIC sponsored EDP programmes has created a wide interest and a demand from various State governments for organizing similar courses in other parts of the country.

## Assistance to State Industrial Development/Investment Corporations/Private Institutions

In the present set-up the State Industrial Development Corporations are charged with the responsibility of industrial development programmes in different States. At the initial stages of industrial planning the question of identification of viable items having prospects for development naturally crops up. A similar problem arises while framing detailed project reports and different selected items. In case such corporations receive letters of Intent from the Government involving foreign collaboration they face the difficulty of finding out suitable foreign collaborators. Even while planning for the growth of ancillary industries they come across the problem of identifying items which could be off-loaded for production in the ancillary sector. In all such matters the Centre can assist them either by providing technical assistance from its own resources or by securing technical know-how from foreign and indigenous sources. It can suggest a suitable agency for selection of plant and equipment and supervising installation and operation. It will put

them in touch with financial institutions which would provide long-term capital for projects which are technically sound and financially viable. Even private institutions seeking assistance of this nature can avail of these services.

*Chapter 20*

# FOCUS ON FRANCHISING

I BEG to differ with those who tend to argue that franchising has no scope in a country like India. In fact, I can cite an example of the hotel industry and the retail trade here. We have now the most successful chains in the Hotel industry like the Taj Inter-continental Hotels Group and Oberoi Chain in India and other places abroad.

In the industrially advanced countries like the USA and Canada franchising has achieved enormous growth. Today, franchising accounts for well over one-fourth of the total retail trade and services in the US—an astronomical figure of $ 80 billion a year. More than 5 million people are involved in this relatively new industry as employees, as suppliers, or as owners. Over 500,000 US independent businessmen hold franchises and more than 4,000 firms are distributing their nationally advertised standard products through these outlets. Each week, about 1,000 new franchises are opening their doors for business.

Some of you may be wondering, what exactly is franchising? Franchising is a method of doing business, a system or technique of marketing a product and a service, which has been adopted and used in a wide variety of industries and businesses. It is a method of distribution, of moving products and rendering services to the ultimate consumer. This form of activity comprises, at least 18 categories of commercial enterprise and includes all the ingredients of the marketing system—planning, production, packaging, pricing, promotion, advertising, selling, buying and competing.

Franchise arrangements have been divided into two broad classes, namely (i) selective or exclusive product distribution and (ii) trade mark licensing of an entire business format or system. For example, an automobile or gasoline industry, a hotel industry and food industry may expand by franchising retail automobile agencies, gasoline starters, independent motel operators, retail convenience food stores, restaurants or prepared fast food outlets under a system whereby an independent operator or dealer franchise operates a complete business in his industry—one identified closely

with the system trade names, trade marks and goodwill. This is a trade mark license or "entire business system" franchising. On the other hand, some in the electrical appliances or cosmetics industry may elect and develop a retail marketing system by licensing distributors on an exclusive or selective basis. This is selective or exclusive product distribution franchising.

### ADVANTAGES

Franchising has numerous merits. It helps the other two beneficiaries, the franchisee (licensee) by having a nationally or internationally known name, training, continued guidance and proven methods, and the consumers to have standards and services and products with quality control. Under the franchise system, a franchisor usually provides managerial training and assistance on a continuing basis, and in many cases, finances the purchase of necessary equipment.

### PRE-REQUISITES FOR SUCCESS

As a franchisor (entrepreneur), you need to consider the following pre-requisites if you want to go into franchising operations:

(1) If you so desire, you may charge an initial fee or put some conditions. I would like to quote the example of the Success Motivation Institute which has over 1075 franchisees in 50 states of USA and 23 foreign lands. SMI's International distributionship, markets management, sales and personal development programmes to individuals, companies and governments and other organizations have won world-wide acclaim. In the past decade SMI's sales exceeded over hundred million dollars. This makes the SMI the world's leader and pioneer in knowledge, communication and education industry.

(2) Secondly, it is necessary that you have "pilot" operations with some history and profitable results. To give again the example of SMI, it commenced its business operations in 1960 with a very modest start. But in about two decades' time, it grew to be the largest in the field.

(3) You must prepare a proper franchise agreement in fairness to both parties. Basically, you license your name, and know-how

in this agreement. Make it go to record the world's best marketing triumphs.

(4) Put your know-how in writing in an operations manual. I would suggest you use this to train and motivate your franchisees. I have personally known the founder President Paul J. Meyer of SMI, Waco, Texas. His sales techniques are proven, simple and they work. By internationalizing SMI's marketing concept, President Lombardi, who is the Far East Licensee of SMI (Waco, Texas) has multiplied his business to tenth-multiple, running into millions of dollars, and extended his operations throughout Asia and Africa. Lombardi claims universality in the SMI concept, and believes that SMI's is a noble task. It is a rewarding and honest work.

Franchise system has now come of age in many countries and in almost all spheres of life. In America, some very large franchise organizations are fast foods like Kentucky Fried Chicken, Howard Johnson's, McDonald's etc. Lately, the hotel industry has become a fertile ground for the franchising system. Experts predict that in future franchising will become the principal method for operating hotels. The pioneer in the field is the Hilton chain, which began franchising in 1967. Since it operates in widely dispersed geographical areas the advantages are many. Again, one must not forget that the core reason for franchising is manager motivation.

Can franchising be exported fast enough? Yes, why not! Robert L. Groves, President of Snap-on Tools Corporation said: "The franchise concept of distribution is exportable. The relationship concept between franchisor and franchisee is exportable. The economic results of franchising are exportable. So we believe that franchising is a valuable export commodity. . . . We have everything to gain and nothing to lose. We have a lot of business to tap."

Now that India has diversified its industrial and business structure, can it lag behind in franchising? Certainly not.

*Chapter 21*

# AFTERWORD

IT IS naive but true that many of you are not conscious of the inherent power—the inbuilt potential within you. The result : power lies unexplored within you till one day, as if by a quirk of fate or accident, you suddenly become aware of its existence.

You feel it is a miracle. Certainly it is not. Dust accumulates in a room if it is not cleaned or washed regularly. So does the mind accumulate dust when it is closed. A fresh breeze is as essential for a healthy mind as for a healthy body.

Can a system be worked out for cleaning the mind? Yes, it can, if you plan to do so. What you need most is a desire, a plan of action—for your life, or for the business you may choose to pursue. My goal in writing this book has been to provide you with a methodology, or even a target for you to shoot at. I do hope I have succeeded in helping you—at least in making you aware of some portion of the potential within you.

You will agree that the rewards can be financially and psychologically fantastic. If you succeed, not only you but much of humanity will reap the rewards. You should not think of failure, once you recognize the potential within you.

But at the same time, if you want to make a fortune, outstanding service is the key. The world's leaders, whether in business, industry or individual endeavour, have succeeded after realizing that they have filled a need. You should try to serve your fellowmen by filling a need.

In closing, let me share with you, my favourite quotation from Paul J. Meyer. I have it on the wall next to my desk.

*"Whatever You Vividly Imagine, Ardently Desire, Sincerely Believe, and Enthusiastically Act upon . . . Must Inevitably Come to Pass!"* . . .

PAUL J. MEYER

# THE MAJOR FINANCIAL INSTITUTIONS AT A GLANCE

Industrial Development Bank of India (IDBI)
Jolly Maker Chamber No. 1
227 Backbay Reclamation Scheme
Post Box No. 10020
Bombay 400 021.

Industrial Finance Corporation of India
Bank of Baroda Building
16, Parliament Street
P B No. 363
New Delhi 110 001.

Industrial Credit and Investment Corpn. of India (ICICI)
ICICI House
163, Backbay Reclamation
Bombay 400 020.

Life Insurance Corpn. of India
Yogakshema
Jeevan Beema Marg
Bombay 400 001.

Unit Trust of India
45, Veer Nariman Road
Bombay 400 001.

Industrial Investment Trust Ltd.
61, Bombay Samachar Marg
Bombay 400 023.

Investment Corpn. of India Ltd.
The National Small Industries Corpn. Ltd.
Near Okhla Industrial Estate
New Delhi 110 020.

Industrial Reconstruction Corpn. of India Ltd.
19, Netaji Subhash Road (2nd Floor)
Calcutta 700 001.

# THE STATE FINANCIAL CORPORATIONS

Andhra Pradesh State Financial Corporation
5-9-194, Chirag Ali Lane
P B No. 165
Hyderabad 500 001.

Assam Financial Corporation
'Glenerquart House' (Near Ward Lake)
Shillong 793 001

Bihar State Financial Corporation
Frazer Road
Patna 800 001

Delhi Financial Corporation
'Saraswati Bhavan'
'E' Block, Connaught Place
New Delhi 110 001

Gujarat State Financial Corporation
'Jaldarshan' Building
1st Floor, Ashram Road
Navrangpura
P B No. 4030
Ahmedabad 380 009

Haryana Financial Corporation
Nos. 17, 18, 19 Sector 17 A
(Opp. L I C Building)
Chandigarh 160 017

Himachal Pradesh Financial Corporation
'Kishore Bhavan'
The Mall
Simla

Jammu & Kashmir State Financial Corporation
P W D Buildings
Residency Road
Srinagar (Kashmir)

P W D Building
Opp. New Transport Yard
Nehru Market
Jammu (Tawi).

Karnataka State Financial Corporation
Sankaranarayana Buildings
5th Floor
25, Mahatma Gandhi Road
Bangalore 560 001.

Kerala Financial Corporation
Vellayambalam
Trivandrum 695 001.

Madhya Pradesh Financial Corporation
Fairdeal Motors Building
Bombay Agra Road
Indore 452 001.

Maharashtra State Financial Corporation
New Excelsior Building
7th, 8th & 9th Floor
Amrit Keshav Nayak Marg
Bombay 400 001.

Maharashtra State Small-Scale Industrial Development Corporation
Kripanidhi
Ballard Estate
Bombay 400 038.

State Industrial Corporation of Maharashtra Ltd. (SICOM)
Nirmal
Nariman Point
Bombay 400 021.

Orissa State Financial Corporation
Arunodaya Market Buildings
Link Road
Cuttack 753 009.

Punjab Financial Corporation
No. 72/73, Sector 17—B

Bank Square
Chandigarh 160 017

Rajasthan Financial Corporation
'Surya Niwas'
C 18, Bhagwandas Road
P. B. No. 63
Jaipur 302 001

Tamil Nadu Industrial Investment Corporation Ltd.
Arul Manai
26 Whites Road
Madras 600 014

Uttar Pradesh Financial Corporation
'Frizzoni House'
14/88, Civil Lines
Kanpur 208 001.

West Bengal Financial Corporation
'Raja Chambers'
1st Floor
4, Kiran Shankar Roy Road
Calcutta 700 001.

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Nicholas, Ted. *How and Where to Raise Venture Capital to Finance a Business*. Delaware, USA : Enterprising Publishing Inc., 1976.

# ABBREVIATIONS

| *Term* | *Description* |
|---|---|
| OPM | Other People's Money |
| IDBI | Industrial Development Bank of India |
| RBI | Reserve Bank of India |
| R & D | Research & Development |
| ICICI | Industrial Credit & Investment Corporation of India |
| IFCI | Industrial Finance Corporation of India |
| SIIC | State Industrial Investment Corporation |
| LIC | Life Insurance Corporation |
| UTI | Unit Trust of India |
| IRCI | Industrial Reconstruction Corporation of India |
| SFC | State Financial Corporation |
| GSFC | Gujarat State Financial Corporation |
| GIIC | Gujarat Industrial Investment Corporation |
| GSIC | Gujarat Small-Scale Industries Corporation |
| GIDC | Gujarat Industrial & Development Corporation |
| HFC | Haryana Financial Corporation |
| HSIDC | Haryana State Industrial Development Corporation |
| HSSIEC | Haryana State Small-Scale Industries & Export Corporation |
| KSIIDC | Karnataka State Industrial Investment & Development Corporation |
| KSFC | Karnataka State Financial Corporation |
| KIADB | Karnataka Industrial Area Development Board |
| MSIDC | Maharashtra State Industrial Development Corporation |
| MSFC | Maharashtra State Financial Corporation |

| | |
|---|---|
| SICOM | State Industrial & Investment Corporation of Maharashtra |
| MSSIDC | Maharashtra Small-Scale Industrial Development Corporation |
| PFC | Punjab Financial Corporation |
| PSIDC | Punjab State Industrial Development Corporation |
| TIIC | Tamil Nadu Industrial Investment Corporation |
| SIPCOT | State Industrial Promotion Corporation of Tamil Nadu |
| TIDCO | Tamil Nadu Industrial Development Corporation |
| WBIDC | West Bengal Industrial Development Corporation |
| WBFC | West Bengal Financial Corporation |
| APFC (APSFC) | Andhra Pradesh Financial Corporation |
| APIDC | Andhra Pradesh Industrial Development Corporation |
| AFC | Assam Financial Corporation |
| AIDA | Assam Industrial Development Association |
| BSFC | Bihar State Financial Corporation |
| BIDC | Bihar Industrial Development Corporation |
| HPFC | Himachal Pradesh Financial Corporation |
| HPMIDC | Himachal Pradesh Mineral & Industrial Development Corporation |
| JKSFC | Jammu & Kashmir State Financial Corporation |
| JKSIDC | Jammu & Kashmir State Industrial Development Corporation |
| KSIDC | Kerala State Industrial Development Corporation |
| KSFC | Kerala State Financial Corporation |
| MPAVN | Madhya Pradesh Audyogik Vikas Nigam |
| MPFC | Madhya Pradesh Financial Corporation |
| OSFC | Orissa State Financial Corporation |
| IDCOL | Industrial Development Corporation of Orissa Ltd. |
| OSSIC | Orissa Small-Scale Industries Corporation |

| | |
|---|---|
| IPICOL | Industrial Promotion & Investment Corporation of Orissa Ltd. |
| DRI | Differential Rate of Interest |
| ARC | Agricultural Refinance Corporation |
| GDDIDC | Goa, Daman and Diu Industrial Development Corporation |
| CSIR | Council of Scientific & Industrial Research |
| RSIMDC | Rajasthan State Industrial & Mineral Development Corporation |
| RFC | Rajasthan Financial Corporation |
| UPFC | Uttar Pradesh Financial Corporation |
| PICUP | Pradeshiya Industrial & Investment Corporation of Uttar Pradesh |
| UPSIC | Uttar Pradesh Small Industries Corporation |
| EDP | Entrepreneurial Development (Training) Programme |
| MAST | Marketable, Ascertainable, Stable Value & Easy Transfer |
| IBRD | International Bank for Reconstruction & Development |
| CGCI | Credit Guarantee Corporation of India |
| DIC | District Industries Centre |
| SSIDC | State Small Scale Industries Development Corporation |
| KVIC | Khadi & Village Industries Commission |
| SFDA | Small Farmer Development Agencies |
| MFAL | Marginal Farmers & Agricultural Labourers' Agency |
| CAD | Command Area Development |
| DPAP | Drought Prone Area Programme |
| BAIF | Bharatiya Agro-Industries Foundation |
| FERA | Foreign Exchange Regulation Act |
| FRG | Federal Republic of Germany |
| UAR | United Arab Republic |
| MNC | Multi-National Corporation |
| OECD | Organization for Economic Cooperation & Development |
| UN | United Nations |
| IIC | Indian Investment Centre |
| USA | United States of America |

| | |
|---|---|
| UK | United Kingdom |
| MDI | Management Development Institute |
| SSI | Small-Scale Industry |
| MSI | Medium-Scale Industry |
| LSI | Large-Scale Industry |

APPENDIX

# THE MILLION DOLLAR
## *Personal Success Plan . . .*

by Paul J. Meyer

***ONE—Crystallize Your Thinking.***

. . . determine what specific goal you want to achieve. Then dedicate yourself to its attainment with unswerving singleness of purpose, the trenchant zeal of a crusader.

***TWO—Develop a Plan for Achieving Your Goal, and a Deadline for Its Attainment.***

Plan your progress carefully: hour-by-hour, day-by-day, month-by month. Organized activity and maintained enthusiasm are the well-springs of your power.

***THREE—Develop a Sincere Desire for the Things You Want in Life.***

A burning desire is the greatest motivator of every human action. The desire for success implants "success consciousness" which, in turn, creates a vigorous and ever-increasing "habit of success".

***FOUR—Develop Supreme Confidence in Yourself and Your Own Abilities.***

Enter every activity without giving mental recognition to the possibility of defeat. Concentrate on your **strength,** instead of your weakness . . . on your **powers,** instead of your problems.

***FIVE—Develop a Dogged Determination to Follow Through on Your Plan, Regardless of Obstacles, Criticism or Circumstances, or What Other People Say, Think or Do.***

Construct your Determination with Sustained Effort—Controlled Attention and Concentrated Energy.

OPPORTUNITIES never come to those who wait . . . they are captured by those who dare to ATTACK.



NOTE: You can ask for your FREE COPY of *The Million Dollar Personal Success Plan* (suitable for framing directly from Mr. Michael Lombardi, President, SMI FAR EAST, 18-17, Sarugakucho, Shibuyaku, Tokyo, Japan.

# INDEX

# INDEX

OPEC =

Oil

PRODUCING EUROPIAN

~~ECONOMIC~~ COUNTRIES

~~COMMUNITY~~

By BKRaju

30/7/86